

**MacMillan Bloedel Limited**

Annual Report 1974



## Contents

---

Directors' Report to the Shareholders.....	2
Historical Review.....	26
Consolidated Financial Statements.....	28
Operations, Sales Offices and Distribution Centres.....	40
Directors and Officers .....	41

---



## Summary of Significant Facts

	Year Ended December 31	
	1974	1973
<b>Earnings</b>		
Sales and other income		
Sales of products and services .....	\$1,396,329,758	\$1,215,190,651
Other income .....	2,518,324	4,051,064
	<u>\$1,398,848,082</u>	<u>\$1,219,241,715</u>
Earnings before income taxes, equity in earnings of partly-owned companies and minority interests .....	\$ 115,383,430	\$ 144,520,996
Net earnings after income taxes, equity in earnings of partly-owned companies and minority interests		
Amount .....	\$ 72,298,532	\$ 81,752,437
Basic net earnings per share .....	\$ 3.41	\$ 3.90
Fully diluted net earnings per share .....	\$ 3.29	\$ 3.85
Charge for		
Depreciation .....	\$ 44,979,001	\$ 41,576,757
Depletion .....	5,315,666	5,946,302
Amortization of logging roads .....	9,766,183	7,953,222
	<u>\$ 60,060,850</u>	<u>\$ 55,476,281</u>
Earnings retained in business at end of year .....	\$ 343,292,255	\$ 302,891,757
<b>Basic Cash Flow</b> .....	\$ 136,322,827	\$ 141,782,008
<b>Property, Plant and Equipment (net*)</b>		
Additions .....	\$ 147,710,673	\$ 89,515,486
Proceeds on disposal .....	(3,297,116)	(2,019,803)
Loss on disposal .....	(475,240)	(724,730)
Net additions .....	<u>\$ 143,938,317</u>	<u>\$ 86,770,953</u>
<b>Percentage of Long Term Debt to Total Capital Employed</b> .....	32.6	29.7
<b>Dividends</b>		
Cash — ordinary shares		
Amount .....	\$ 37,124,917	\$ 26,214,213
Per share .....	\$ 1.75	\$ 1.25
<b>Employees</b>		
Wages, salaries and employee benefits .....	\$ 344,976,241	\$ 290,776,357
Number at end of year .....	23,847	24,478
<b>Shareholders</b>		
Number at end of year** .....	16,385	17,120

\*Including property, plant and equipment of subsidiaries acquired during the year.

\*\*Excluding holders of share warrants.



## Directors' Report to the Shareholders

Continuing deterioration in the economies of the Western world resulted in a serious erosion of markets for building materials during 1974. The lack of mortgage money in many countries and the high cost of that which was available brought demand for lumber and plywood and other building materials to an extremely low ebb by the end of the year — a situation which still prevails.

Markets for MacMillan Bloedel's pulp, paper and packaging products were not affected as quickly by the recessionary conditions and it was not until recently that softening began to occur. Similarly, the operations of the European pulp and paper companies in which MacMillan Bloedel has a significant (but less than 50%) investment interest also enjoyed excellent earnings for the year but are now experiencing a decline in demand.

The Company's transportation operations made a notable profit contribution during 1974, but these activities too are now reflecting the reduced tempo of world trade.

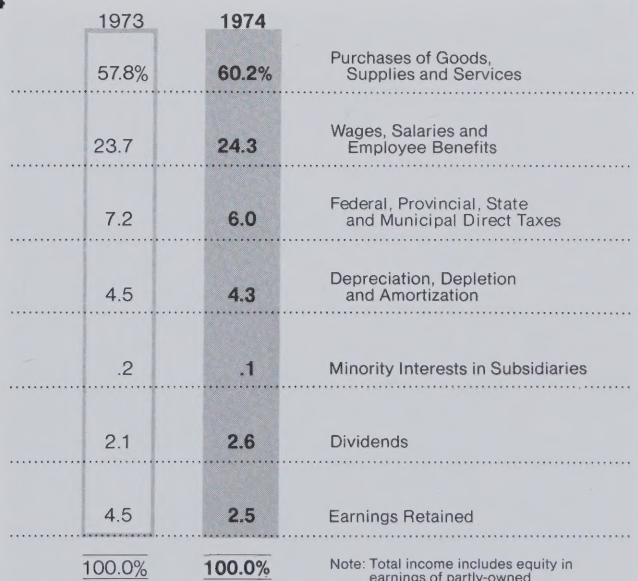
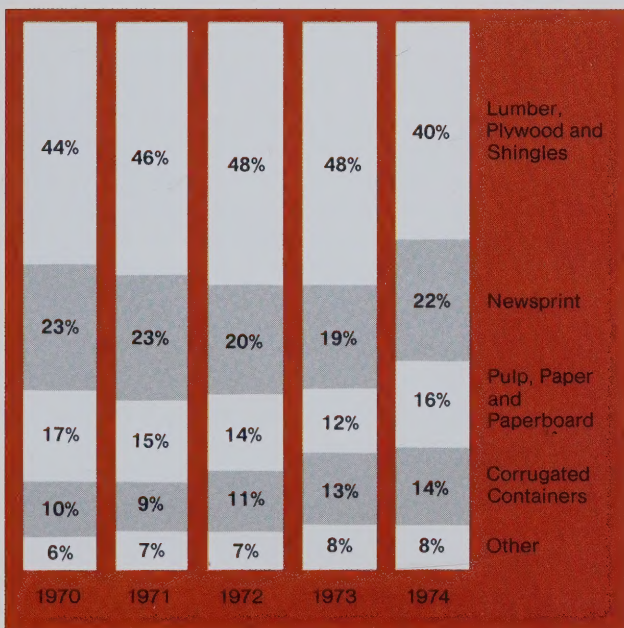
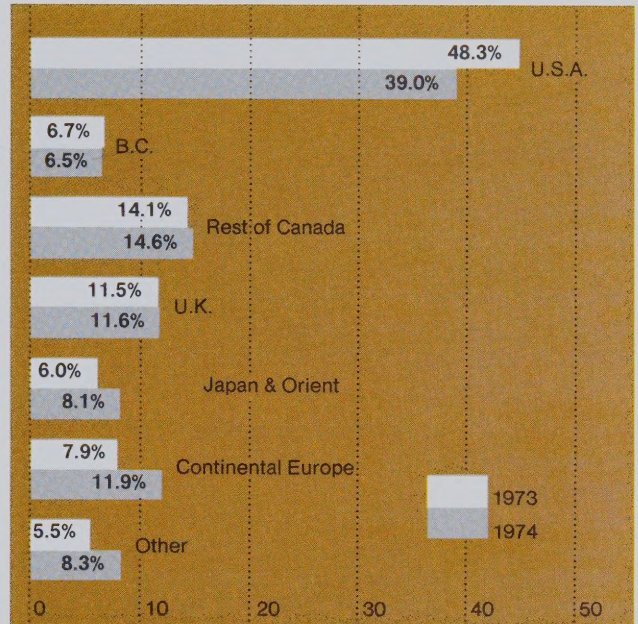
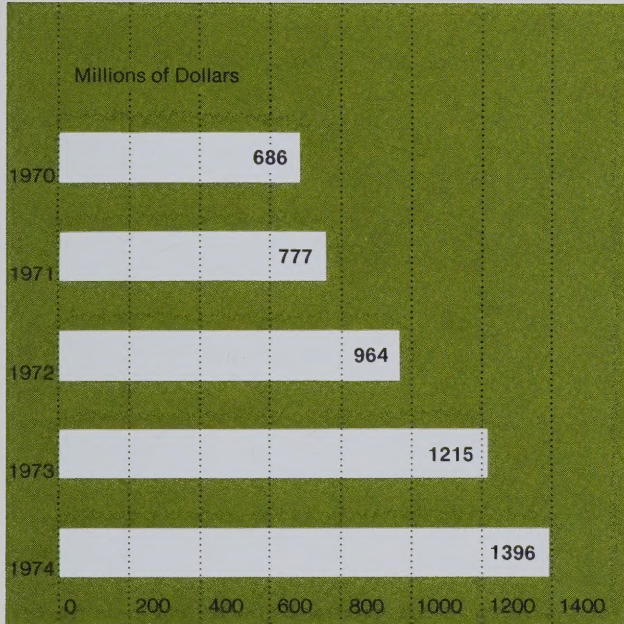
The net effect of these various factors resulted in MacMillan Bloedel earning \$72,298,532 in 1974 (\$3.41 per share, \$3.29 per share fully diluted) compared with \$81,752,437 (\$3.90 per share, \$3.85 per share fully diluted) in 1973. Sales and other income for the year amounted to \$1,398,848,082 compared with \$1,219,241,715 in 1973.

More detailed comments relating to MacMillan Bloedel's operations in 1974 follow.

The manner in which such comments are offered this year represents somewhat of a departure from the format previously adopted. Some pertinent remarks and key financial and statistical details are presented for each of the principal product and service categories of the Company, followed by a financial review of the Company overall. As part of this review, a set of simplified statements is set out which is intended to provide a readable and readily understandable guide to the Company's financial affairs. The formal audited financial statements for the year ended December 31, 1974 are presented in the normal fashion at the end of this Report.



1. Sales of Products and Services
2. Sales of Products by Markets
3. Contribution to Sales by Products
4. Distribution of Total Income



Note: Total income includes equity in earnings of partly-owned companies.



## Building Materials

The forest products industry has long been regarded as a cyclical one, and at no time has this been better exemplified than by the rapid change during 1974 in the fortunes of the Company's building materials operations.

After a most encouraging year in 1973, these operations entered 1974 with the expectation of another period of satisfactory earnings. However, the precipitate downturn of markets in the United States, the dislocation of Japan's economy brought about by the oil embargo and higher energy costs, and the continuing decline of the United Kingdom economy combined to bring lumber and plywood prices tumbling and to depress sales to an ever increasing degree as the year wore on. By year end, the situation had deteriorated to the point where, in British Columbia, three of the Company's sawmills were closed for periods of up to seven weeks and its other sawmills remained in operation primarily to supply chips for the Harmac and Alberni pulp and paper mills.

In the midst of these marketing difficulties the converting operations of the Company have found themselves faced with escalating costs and the possibility of yet further increases as a result of potentially higher log costs. The latter could arise through modifications to the method of determining royalties payable to the government of British Columbia with respect to timber licences.

MacMillan Bloedel, along with other companies, acquired a number of timber cutting rights many years ago under which a royalty is due to the Crown when the timber is cut. The initial cost of these rights, together with rentals and taxes paid over the years, represent a substantial investment. The Pearse Task Force, a body appointed by the provincial government to study certain key aspects of the forest industry, recommended that the royalty structure be revised to equate with the stumpage appraisal system which heretofore has been applicable only to certain other categories of cutting rights which, in general, are subject to a smaller burden of taxes.

Although the royalty structure has been a reasonable one, it does not seem to have been understood by the Pearse Task Force that planning for the expansion of plants and the

creation of jobs associated with them becomes an unstable exercise if arbitrary re-structuring of contracts of many years' standing is permitted to bring about significant and totally unpredictable cost increases. This is what will occur if the Pearse Task Force recommendations in this regard are implemented. Whether or not they will be is a matter of conjecture at this time.

Another matter within the government's jurisdiction which has been of considerable concern to the Company's logging divisions has been the onerous effects arising from the manner in which the logging guidelines of the British Columbia Forest Service have been implemented. These guidelines, which were initiated by the previous government, were intended to improve the aesthetic appearance of logged areas, regulate logging practices from an environmental point of view, reduce fire risks and generally represent an orderly and methodical approach to perpetual yield timber harvesting. Conceptually, therefore, the guidelines are commendable but their implementation has been such that, without achieving all of the conceptual objectives, very large increases in logging costs have been engendered — primarily as a result of many extra miles of logging roads now required to log the same amount of timber. Discussions continue to be held with government officials on this matter and it is hoped that some change in the administration of the guidelines will result.

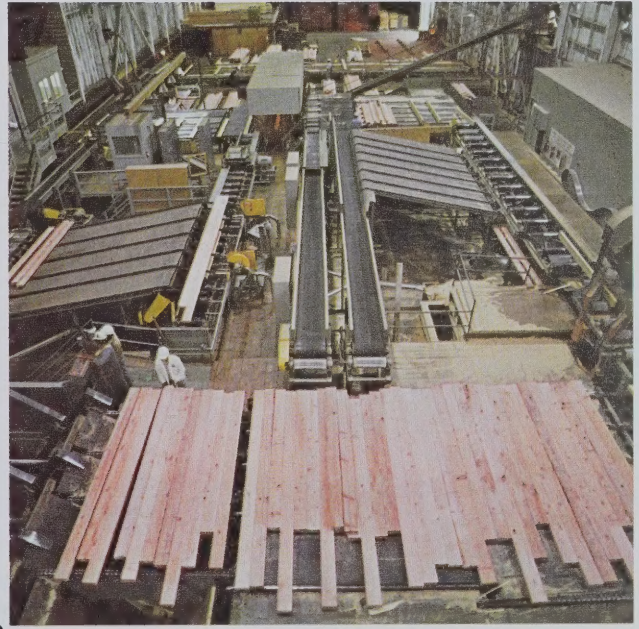
The net effect of deteriorating markets and higher costs was to reduce the 1974 profit contribution of the building materials operations to well below the 1973 level. However, although housing starts are still at depressingly low levels, a large unsatisfied demand for housing still exists in many countries of the world. Demand for building materials will, therefore, undoubtedly improve, but the timing of the recovery is unpredictable. When it occurs the Company's new ASPENITE\* plant at Thunder Bay, Ontario, the new particleboard mill at Pine Hill, Alabama, and the new small log sawmill at Harmac will have important parts to play in strengthening the profit capability of the building materials divisions. The first two facilities were almost completed by the end of 1974 and construction of the Harmac mill commenced in July 1974.

\*Registered Trade Mark of MacMillan Bloedel Limited



New wood product mills bring greater efficiency and more complete utilization of wood resources.

1. Woodroom #4 at Harmac (Nanaimo, B.C.), where bandsaw equipment was installed before walls went up, is designed for processing small logs.
2. Port Alberni, B.C., specialty mill resaws timbers to customer order.
3. Queensborough mill, at New Westminster, B.C., processes lower-grade logs to improve utilization of available wood.
4. Waferboard mill at Thunder Bay, Ontario, produces panelboard sold under trade name ASPENITE. Employees were trained in innovative team approach to work functions.



1 2  
3 4





## Building Materials *(continued)*

The following table of statistics presents a brief overview of the building materials operations of the Company.

	B.C.	Rest of Canada	U.S.A.	Total
Number of plants	15	4	4	23
Production in 1974				
Logs in millions of cubic feet	292	22	13	327
Lumber in millions of board feet	944	—	44	988
Panelboards in millions of square feet (%") (excluding specialty boards)	398	156	64	618
		1974	1973	
		(in millions of dollars)		
Sales of building materials products (see Note)		\$595.4	\$651.9	
Contribution towards earnings (see Note)		\$ 35.5	\$106.2	

### Note:

The sales and contributions to earnings figures shown in the table opposite and in the tables on pages 10, 12 and 14 relating to other activities of the Company are computed as accurately as possible but contain some approximations.

Furthermore, they are based on inter-company pricing policies and methods of allocating costs which the Company believes to be sound but which lie in areas which have always been subject to controversy. The figures are not represented, therefore, as the only possible interpretation but they are, and will be, computed on a consistent basis year by year (unless otherwise stated) and thus portray trends.

The sales figures shown in the tables include inter-company transactions which are eliminated in computing the Company's total sales for the year. The sales figures also include sales of products manufactured by other companies but which are marketed by MacMillan Bloedel.

The contributions towards earnings shown in the table on this page and those tables on pages 10, 12 and 14 represent sales less cost of sales, selling expenses and allocated general and administrative expenses.

1. Pine Hill complex now has linerboard, lumber, plywood and (foreground) particleboard plants.
2. Shavings and sawdust from independent mills are hauled to Pine Hill by new trucks dumped with a special hoist.



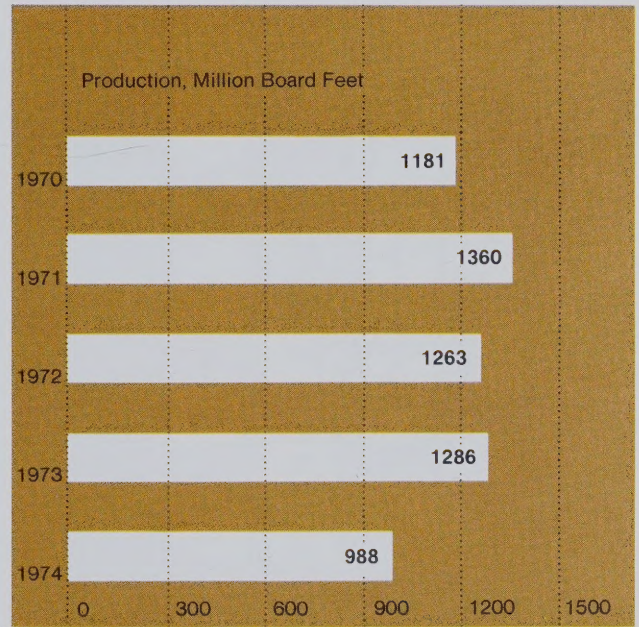
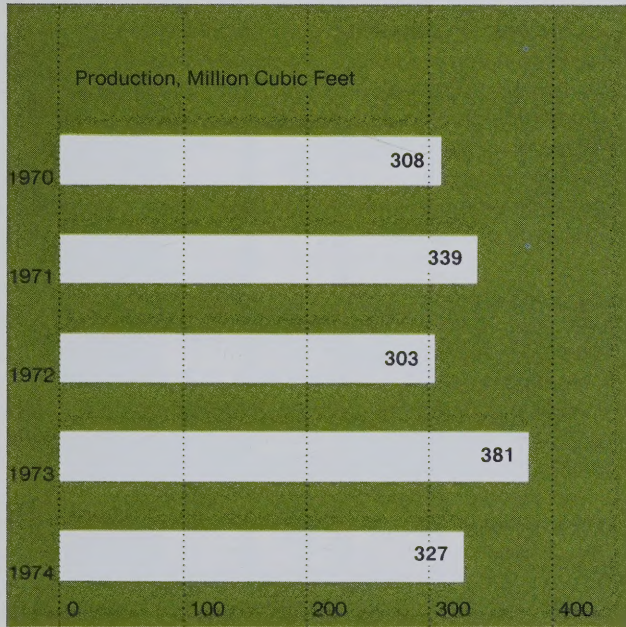
1 2



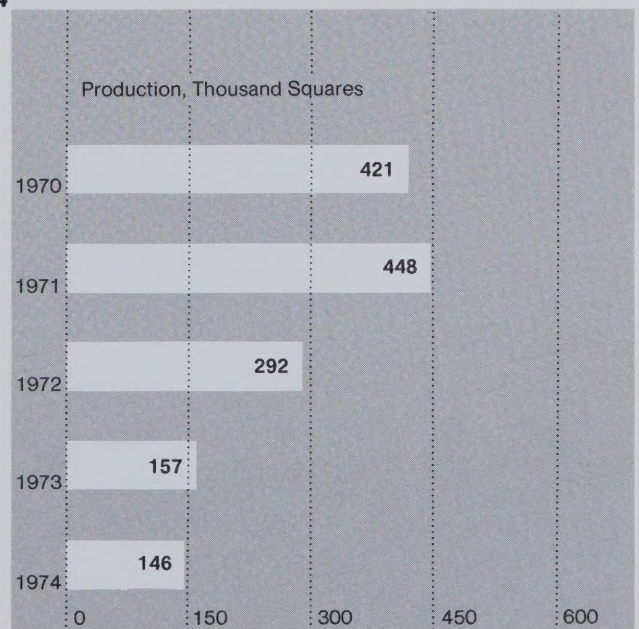
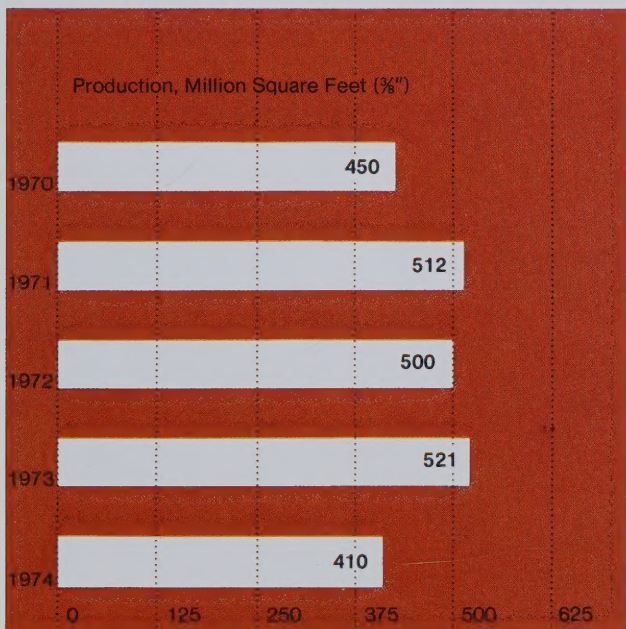


Production:

1. Logs (B.C. and other operations)
2. Lumber
3. Plywood
4. Shingles



1 2  
3 4





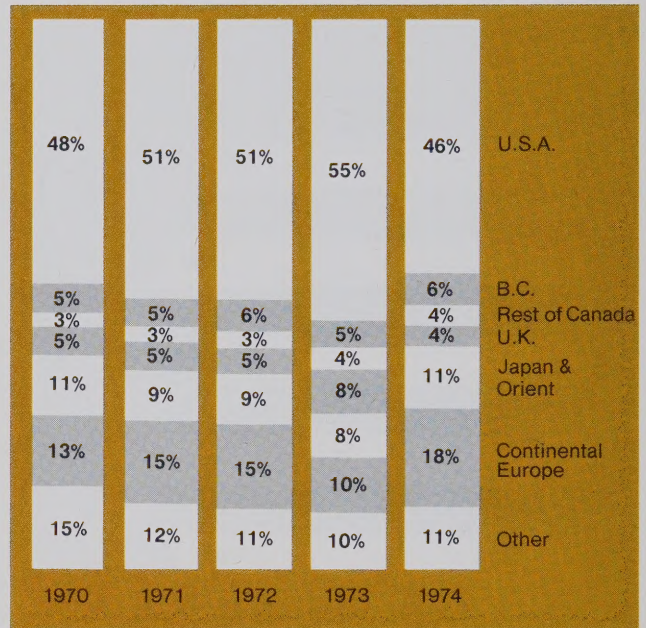
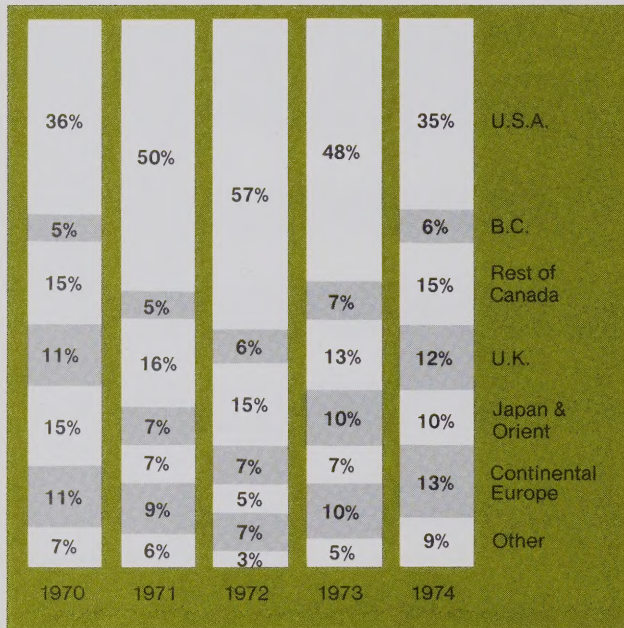
**1. Sales of Lumber, Plywood and Shingles by Markets.**

**2. Sales of Newsprint, Pulp, Kraft Paper and Paperboard and Fine Paper by Markets.**

In British Columbia, new facilities were created to sort and haul logs.

**3. Land sort at Port McNeill on Vancouver Island replaced water sort, helping to prevent log losses and reduce debris entering water.**

**4. Haida Monarch, 15,000-ton, self-propelled, self-dumping log barge went into service to transport logs from the Queen Charlotte Islands to Coastal mills.**



1 2  
3 4



## Pulp and Paper

After several years of excess production capacity and low prices, the pulp and paper sector rebounded in 1973, and in 1974 a more balanced world supply and demand relationship was experienced. This permitted an increase in the price levels of these products from the unsatisfactory and uneconomic levels hitherto prevailing.

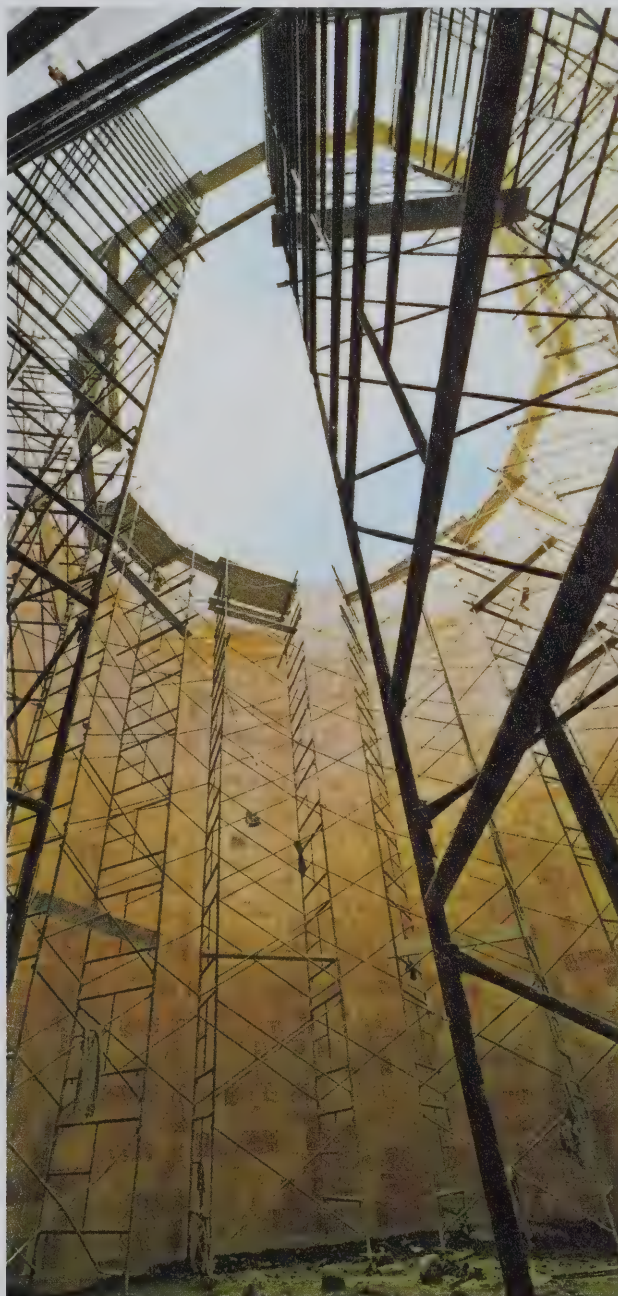
In order to maximize the benefit from strong markets for pulp and paper products, MacMillan Bloedel operated its production facilities at very high levels whenever possible. Labour disruptions, however, closed the Alabama linerboard mill for a 14 week period, and the British Columbia pulp and newsprint mills for periods up to 5 weeks.

Several cost reduction programmes were initiated or continued in 1974 to combat increases in production costs. The renovation of a number of the facilities at Powell River at a cost of approximately \$20 million will improve the competitiveness of this mill and a \$16 million project aimed at reducing raw material costs is under way at the MacMillan Rothesay mill at Saint John, New Brunswick. The latter project, and a substantial part of the Powell River programme, comprise the construction of thermo-mechanical pulp plants. In these plants, wood chips will be steamed under pressure and then shredded rather than ground. The resulting material has better newsprint making qualities than the traditional groundwood and, as a result, significantly less high-cost chemical pulp is needed in the furnish for the newsprint machines.

Certain changes in ownership of MacMillan Rothesay Limited took place in 1974. MacMillan Bloedel added to its existing 51% interest by purchasing the 49% minority interest held by Feldmühle A.G. but later Simex, a corporation owned by the Spanish government agency, INI (Instituto Nacional de Industria), subscribed for a 35% interest in MacMillan Rothesay. It is expected that this new relationship will give rise to increased newsprint sales in the Spanish market.

The MacMillan Rothesay mill incurred production difficulties during 1974 which, combined with sharply escalating costs, continued to inhibit its profit making ability. However, corrective steps have been taken with respect to production problems, and the thermo-mechanical pulp installation is expected to reduce raw material costs significantly.

**Thermo-mechanical groundwood pulp installation at Saint John, N.B., includes this pulp storage tank, photographed from inside during construction.**



## Pulp and Paper *(continued)*

**This progress photo shows construction of walls of new building to house thermo-mechanical groundwood pulp mill built at Powell River, B.C. Building was completed by year-end.**



In common with the rest of the pulp and paper industry, MacMillan Bloedel changed its basis of production of newsprint to a 30 lb. basis weight from the 32 lb. basis weight commonly in use prior to 1974. This modification, which was achieved without any changeover difficulties, permits a significant reduction in the required wood fibre and energy consumed in the production of newsprint while maintaining a high-quality product acceptable to customers.

During 1974, the Company spent \$13 million on environmental improvements, and the pulp and paper operations' \$7.5 million portion of this amount sustained its efforts to maintain MacMillan Bloedel's position as an industry leader in pollution abatement.

Two major steps in the programme to reduce odour to the maximum possible extent were the completion of a weak black liquor oxidation system at Harmac and the installation of a digester odour control system which is nearing completion at Alberni Pulp and Paper.

A 3,800 foot outfall and diffuser are currently being installed at Harmac to disperse effluent more efficiently and to minimize the aesthetic impact of foam and colour on the Northumberland Channel. At Powell River, engineering and site preparation were started for the \$15 million effluent treatment system which will reduce solids losses a further 80 percent. This system is scheduled for start-up in 1977.

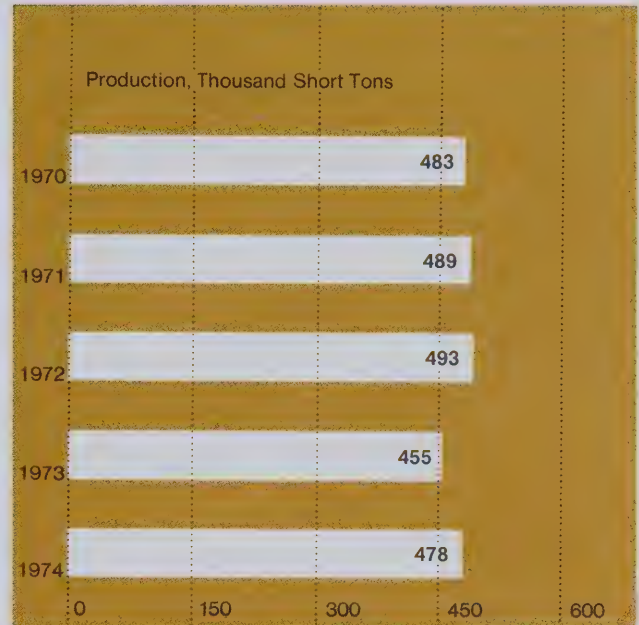
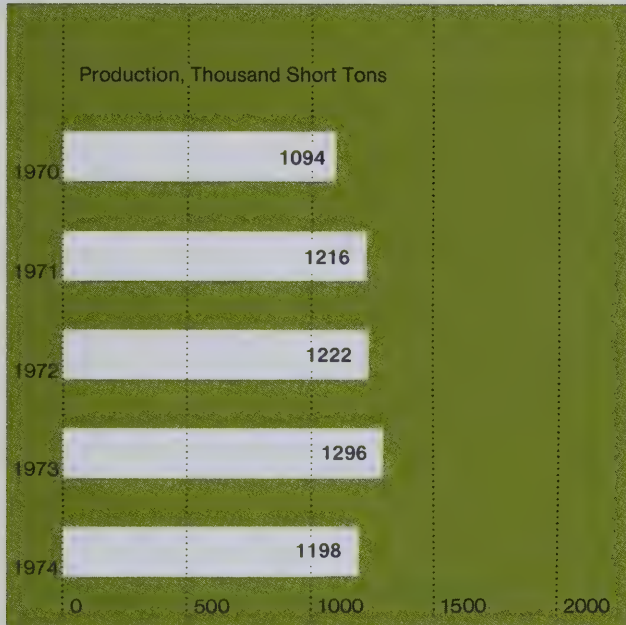
The following tables present a brief summary of MacMillan Bloedel's pulp and paper operations in North America:

	B.C.	Rest of Canada	U.S.A.	Total
Number of plants	4	1	1	6
Production in 1974 (in thousands of short tons)				
Newsprint	904	294	—	1198
Pulp	478	—	—	478
Kraft paper and paperboard	97	—	277	374
Fine paper	33	—	—	33
		1974	1973	
		(in millions of dollars)		
Sales of pulp and paper products		\$523.9	\$389.4	
Contribution towards earnings		\$ 83.7	\$ 40.9	

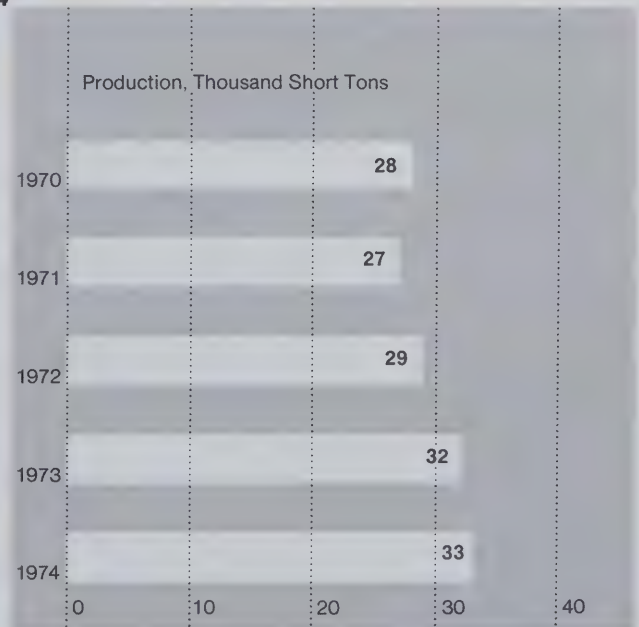
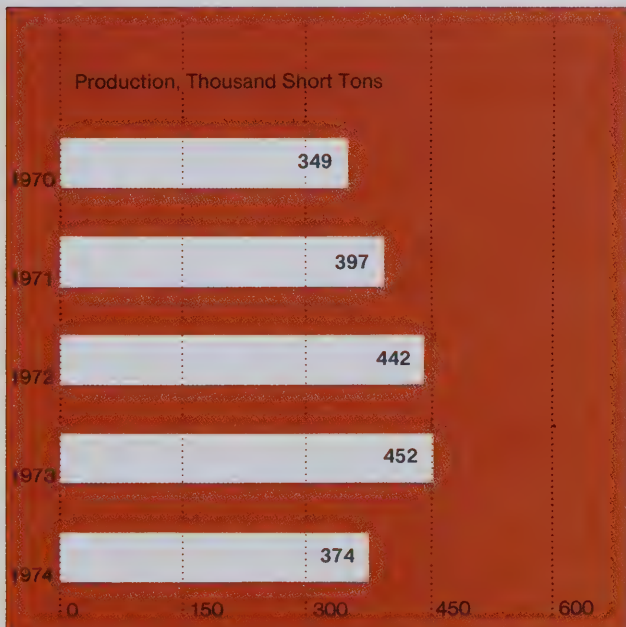


Production:

1. Newsprint
2. Pulp
3. Kraft Paper and Paperboard
4. Fine Paper



1 2  
3 4



## Packaging

In many respects, 1974 was a challenging year for the Company's packaging operations but, nonetheless, nearly all of the 27 plants in the United States, Canada and the United Kingdom had a successful year. Due to the breadth of the markets served by these operations, demand for such products closely reflects the pace of economic activity. Demand was, therefore, high for most of 1974 but, as the impact of recession began to be felt towards the end of the year, the backlog of orders fell quite sharply.

Difficulties were experienced for some months in obtaining paper supplies both in Canada and the United States due to reduced production arising from strikes at the Company's facilities. In order to obtain the required materials it was necessary on several occasions, to purchase paper from alternative suppliers at premium prices with a corresponding impact on profit margins. The escalation in raw material costs which arose because of these shortages and because of general inflation in the price of linerboard was offset, to a large extent, by operating efficiencies achieved during the year and by higher price levels for packaging products.

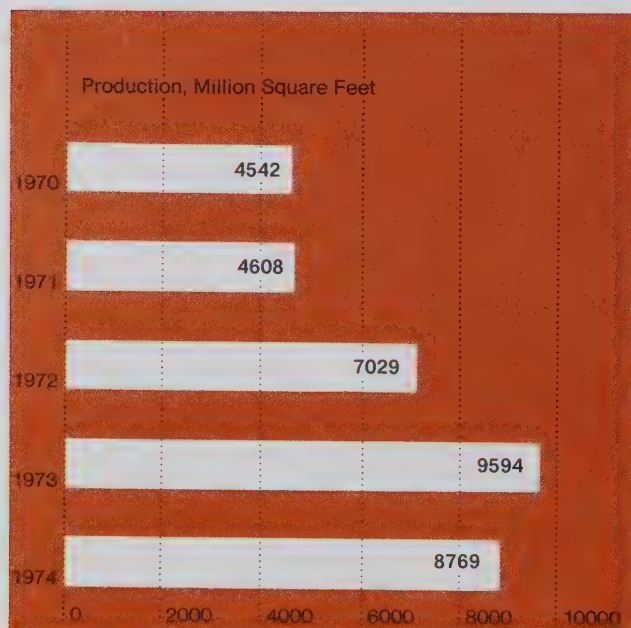
The plants in the United Kingdom also faced a difficult market environment as a result of the widespread labour disruptions and the restrictive

economic measures employed by that country.

During 1974, two new corrugated container plants — one in Edmonton, Alberta and the other in Los Angeles, California — were completed to replace existing obsolete facilities. In addition, the Company acquired a plastic products plant in Edmonton and a 50% interest in Montebello Metal Ltd. The latter company manufactures impact extrusion metal tubes and various plastic products in Eastern Canada. In addition, two small corrugated container plants in Scotland were acquired with a view to establishing a base in the Scottish market.

	B.C.	Rest of Canada	U.S.A.	U.K.	Total
Number of plants	3	5	12	7	27
Packaging production in 1974 (in thousands of short tons)	45	40	223	148	456
		1974	1973		
		(in millions of dollars)			
Sales of packaging products		\$204.8	\$173.2		
Contribution towards earnings		\$ 15.4	\$ 13.7		

### Corrugated Containers



**Modernization at Hatfield, England, corrugated container plant improved materials handling and flow and reduced costs. This new roller conveyor was part of improvements.**





New packaging plants were completed and product lines were expanded during 1974.

1. This new corrugated container plant was built in Edmonton, Alberta.
2. Blow moulded plastic containers, also made in Edmonton, were added to product lines through an acquisition.
3. A 50% interest was acquired in Montebello Metal Ltd. of Hawkesbury, Ontario, manufacturer of metal tubes and plastic products.
4. Los Angeles area of California is served by this new corrugated container plant at Carson.



1 2  
3 4

## Transportation

The majority of the Company's shipping and other transportation activities were consolidated in 1974 into the Transportation Group in recognition of the strategic importance and profit potential of this sector of MacMillan Bloedel's operations. Canadian Transport Company Limited, the largest of the Transportation Group's divisions, shipped over 1.8 million long tons of forest products during the year on behalf of the Company. Ships under charter to Canadian Transport also carried more than 2.6 million long tons of external cargo. About one quarter of the fleet was deployed on sub-let time charters at all times. As a result of a generally strong market for dry cargo vessels, water freight rates remained very high for most of the year with a commensurate benefit to profitability.

During the year, Canadian Transport increased its deep-sea fleet under charter to 1.4 million dead weight tons from .7 million dead weight tons at the end of 1973. An additional .4 million dead weight tonnage has been chartered for delivery in 1975, largely to replace ships to be redelivered. The largest portion of the increase was in charters of 24 months or longer in general purpose bulk carriers.

As a result of the increase in longer term charters MacMillan Bloedel's commitments have been substantially increased. The increased tonnage under the Company's control provides better stability in freight rates to the manufacturing groups and increases the opportunities for the Transportation Group to secure profitable non-forest product cargoes. However, the level of international trade has diminished in recent months resulting in a substantial reduction in the revenues of the Transportation Group.

Canadian Gulf Lines, Inc., a subsidiary, which was acquired in 1973, continued its specialized trade in the carriage of newsprint in the Baltic area and the west coast of North America.

	<u>1974</u>	<u>1973</u>
	<i>(in millions)</i>	
<i>Deepsea Fleet utilization:</i>		
Forest products carried (tons)	2.3	2.0
Other cargoes carried (tons)	2.6	1.4
Sub-charter revenues	\$44.0	\$2.7
	<u>1974</u>	<u>1973</u>
	<i>(in millions of dollars)</i>	
<i>Transportation revenues (including carriage of forest products and sub-charter revenues)</i>	\$163.0	\$74.4
<i>Contribution towards earnings</i>	\$ 26.2	\$ 8.5

## Ventures Group

This Group was organized in 1974 to represent MacMillan Bloedel's investment interest in associated companies whose operations are somewhat different in nature from the Company's basic business in forest products. In some instances, MacMillan Bloedel has a majority ownership and in others a minority position, though, in the latter case, the minority is of sufficient size to provide a major voice in the operations and activities of the companies. These enterprises are engaged in innovative business ventures. Most of these will continue to operate as separate entities.

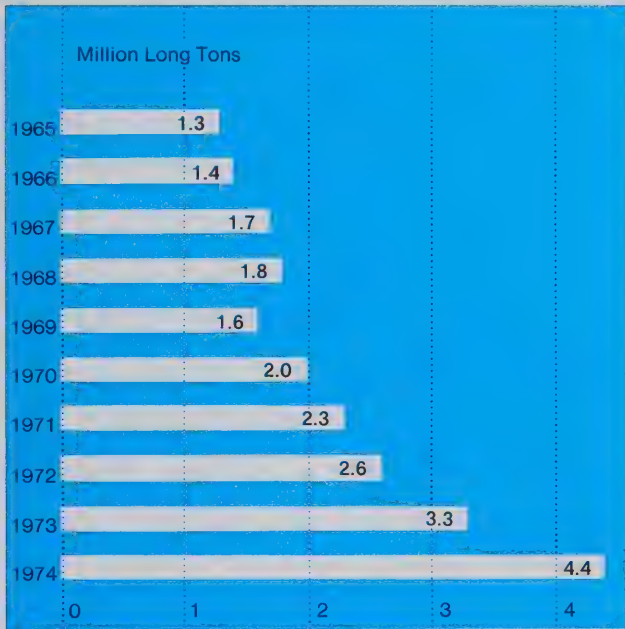
An example of these ventures, is Walpole Woodworkers, Inc. in which MacMillan Bloedel has an 83% interest. This company produces and sells cedar fencing and rustic outdoor furniture for residential use. This activity, which is currently centred in the New England states, will be expanded to the mid-Atlantic region, the mid-West and eventually the West Coast, using indigenous cedar species, thus creating an integrated national operation.

Another venture is a 40% interest in Westwood Building Systems Ltd. of New Westminster, B.C. This company produces a premium line of prefabricated residential housing for sale in Canada and elsewhere. It is intended to expand this type of interest to include other prefabricated building structures.

Recently concluded was the purchase of 28% of the issued shares of Industrial-America Corporation of Jacksonville, Florida (I.A.C.). As part of the consideration for these shares MacMillan Bloedel transferred its interest in Energex Limited of San Diego, California to I.A.C. Energex is a manufacturer of a patented cyclonic burner which converts wood residue into hot gas for use as a source of energy for sawmills and other forest products operations. I.A.C. manufactures custom designed cutting, handling and drying systems used in the manufacture of wood products. One of its subsidiaries is developing a residential resort in Florida.



1. Waterborne cargo carried by Canadian Transport Company Limited.
2. Bulk carrier Westocean, first ship owned by Oceanspan Carriers Limited (a 50% owned Company), was photographed in Vancouver harbour while unloading cargo of phosphate rock.
3. Lumber-laden ship at Tilbury dock in England is one of about 40 deepsea vessels normally under charter to Canadian Transport Company Limited.



1  
2  
3



## Overseas Investments

Apart from subsidiary companies, MacMillan Bloedel has a number of investments in various overseas operations. For the most part, these investment interests are such that MacMillan Bloedel plays a significant role in the direction of the affairs of the companies concerned and thus records for its share of their earnings under the equity method of accounting.

The companies operating in continental Europe participate principally in the fine paper and hardwood pulp sector and, accordingly, benefitted from the favourable consumption and price trends which affected the European pulp and paper industry in 1974. MacMillan Bloedel's investments in companies in the Far East and South America are primarily in a development stage but significant progress was achieved in 1974.

The demand for the fine paper and other paper products produced by Koninklijke Nederlandse Papierfabrieken, N.V. (KNP) which, at the end of the year, was 46% owned by MacMillan Bloedel, remained very strong throughout 1974 but softened somewhat during the last quarter in sympathy with the slumping European economy. Overall, KNP experienced record production and earnings in 1974.

A similar pattern developed for the hardwood and other pulp produced in France and Belgium by La Cellulose d'Aquitaine, S.A. in which MacMillan Bloedel has a 40% interest. Firm markets and prices existed for the first three quarters of 1974 before softening to some extent in the fourth quarter. La Cellulose d'Aquitaine had an excellent year in 1974 and this company also achieved record levels of production and profits.

The market for fine and coated papers in Spain was similarly strong throughout the first nine months of 1974 but again a slackening in demand was noticeable in the last quarter. Production and sales of papers by Celupal, S.A., which is 37½% owned by MacMillan Bloedel (a further 37½% is owned by KNP), reached record levels in 1974 and a further expansion programme is under way which will increase annual capacity from 42,000 to 55,000 metric tons.

Through its distribution subsidiary in Hong Kong, — MacMillan Jardine Limited — MacMillan Bloedel has minority interests in several companies active in the logging and building materials sector in the Far East. These companies include Mentiga Forest Products Sdn. Bhd. which operates a logging, plywood,

blockboard and laminated decking operation in Western Malaysia, P.T. Sangkulirang which operates a logging concession in Indonesia, and Pagdanan Timber Products Inc. which will operate a logging and sawmill facility in the Philippines. MacMillan Bloedel considers the potential in the South East Asian area to be attractive and is investigating several other opportunities in the forest products field.

During 1974, MacMillan Bloedel, in conjunction with Brascan Limited, formed a company to develop a major afforestation project and eventually a large forest products complex in Southern Brazil if economically feasible.

In Australia, in addition to its normal distribution activities, MacMillan Bloedel has an interest in two large real estate development projects.

<i>Principal Overseas Investments</i>	<i>Percent-age Interest</i>	<i>Location</i>	<i>Principal Business</i>
<i>Koninklijke Nederlandse Papierfabrieken, N.V.</i>	46	<i>Holland</i>	<i>Fine paper</i>
<i>La Cellulose d'Aquitaine, S.A.</i>	40	<i>France</i>	<i>Pulp</i>
<i>Celupal, S.A.</i>	37½	<i>Spain</i>	<i>Fine paper</i>
<i>Oceanspan Carriers Limited</i>	50	<i>Bermuda</i>	<i>Shipping</i>
<i>Mentiga Forest Products Sdn. Bhd.</i>	30*	<i>Malaysia</i>	<i>Logging and plywood</i>
<i>P. T. Sangkulirang</i>	25*	<i>Indonesia</i>	<i>Logging</i>
<i>Pagdanan Timber Products Inc.</i>	40*	<i>Philippines</i>	<i>Logging and sawmilling</i>
<i>Embrasca-Empireendimentos Florestais e Agrícolas Ltda.</i>	51**	<i>Brazil</i>	<i>Afforestation</i>
<i>Northpoint Properties Pty. Limited</i>	20	<i>Australia</i>	<i>Office building</i>
<i>Northside Gardens Investments Pty. Limited</i>	20	<i>Australia</i>	<i>Office motel development</i>

\*These percentage interests are held by MacMillan Jardine Limited which in turn is owned to the extent of 51% by MacMillan Bloedel.

\*\*MacMillan Bloedel has a 51% interest in this company but accounts for its share of earnings under the equity method of accounting.

<i>Principal Overseas Investments</i>		
<i>Geographic Area</i>	<i>Share Investment*</i>	<i>1974 Profit Contribution</i>
<i>(in millions of dollars)</i>		
<i>Continental Europe</i>	\$62.2	\$18.8
<i>Far East and South America</i>	\$ 5.1	\$ (.3)
<i>Other</i>	\$ 4.0	—

\*Including equity earnings net of dividends received.



The Company has interests in forest development in the Far East.

1. These logs are from the forests of Indonesia.
2. This plywood plant is in Pahang State, Malaysia.
3. Major species logged in Malaysia are Meranti and Keruing, which often grow large plank buttresses, like the one being cut here, to withstand winds.



1 2  
3



Investment in Europe includes 40% of La Cellulose d'Aquitaine S.A., which has four pulp mills producing mainly bleached hardwood kraft pulp.

1. Mill at St. Gaudens is one of three in France. Foreground statue is of Marshal Joffre.
2. Belgium mill is at Harnoncourt in the southern Ardennes. In foreground is part of water treatment system to aerate and clarify mill discharges.





## Research and Development

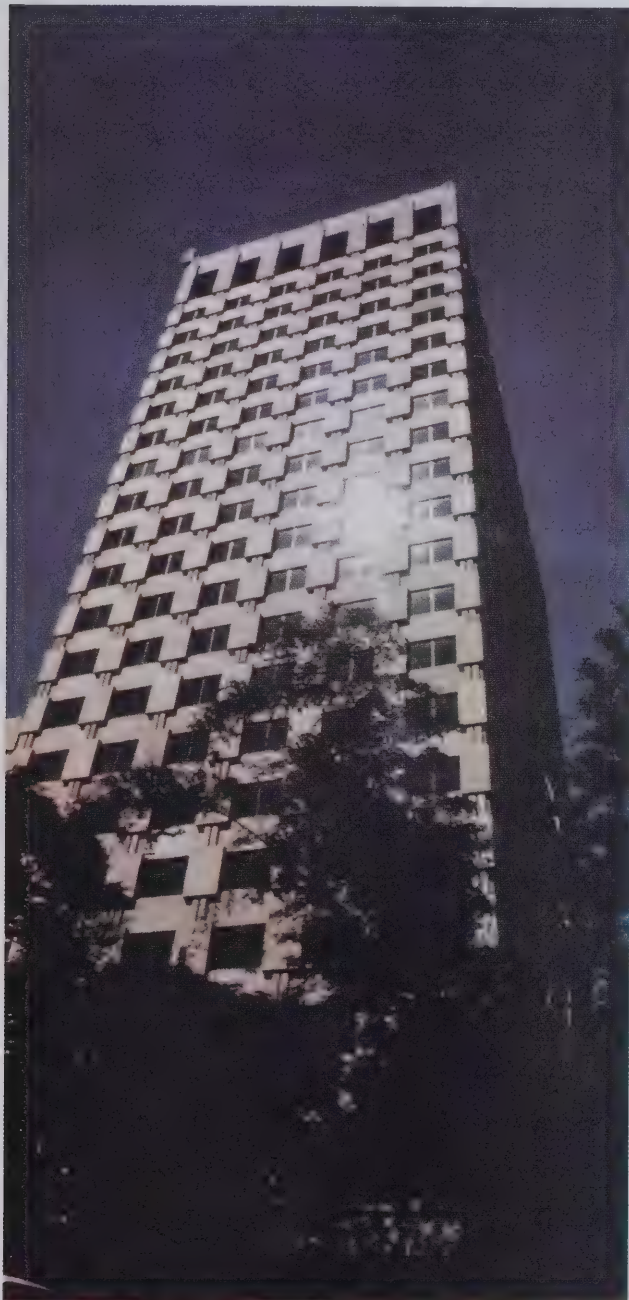
During 1974, MacMillan Bloedel continued to engage in important research and development activities aimed at product and process improvements and approximately \$3.8 million was spent in this regard.

Projects directed towards environmental protection continued to receive high priority. A new bleach sequence was developed which reduces effluent colour and toxicity in pulp manufacturing. The transition to 30 lb. basis weight newsprint by MacMillan Bloedel's mills required close co-ordination with the Research and Development Division as did the feasibility studies supporting the thermo-mechanical facilities to be introduced at Powell River and MacMillan Rothesay.

Various studies established the optimum operating procedures for the new wood preservation facilities in New Westminster and for the application of adhesive systems for plywood and particleboard. Attention was focussed on MacMillan Bloedel's energy requirements and examinations were carried out to reduce them where possible.

MacMillan Bloedel's commitment to continuing research and development is demonstrated by the Company's decision to construct an \$8 million research centre in British Columbia which is expected to be operational in 1977.

**Northside office tower in Sydney, Australia, is one of two major real estate projects developed there in joint undertaking with Jardine, Matheson & Company (Australia) Pty. Limited.**



## Financial Overview

The consolidated net profit for the 1974 year of \$72,298,532 represents a return on total capital employed of 8.6%, and brings the average of such return for the past five years to 6.9%.

The precipitate downturn in mid-1974 in the profitability of building materials operations and the more recent softening in markets for other products and services suggests that the long term average return may not increase much, if at all, in 1975. This is unfortunate in that one of the serious effects of inflation has been to increase materially the capital needed by the Company and the whole industry merely to maintain existing levels of operations. Such capital will become more and more difficult to acquire in the absence of adequately attractive rates of return.

During 1974 the Company's current assets rose by almost \$58 million. The major part of this increase arose from higher levels of accounts receivable and inventories which, in turn, were caused to a substantial extent by increased costs of production due to inflation.

Inflation also materially escalated the cost of plant and equipment acquired during the year which cost, together with that of new investments, amounted to almost \$180 million.

These needs together with increases in current assets were met largely by re-investment of funds generated from operations to the extent of approximately \$97 million and by long and short term borrowings.

The long term borrowings during the year were represented principally by the issue in the United States in July of U.S. \$75 million 8¾% Series F debentures. Preparation for a Series G financing in Canada of \$40 million 11¼% debentures took place in 1974 and the issue was effected in January 1975.

As at December 31, 1974, the ratio of total long term debt to total capital employed stood at 32.6% and the working capital ratio (current assets compared with current liabilities) was 1.8:1. The proceeds of the Series G issue were applied in January in reduction of short term borrowings. In order to maintain a sound position, tight constraints have been imposed on the Company's capital expenditure programmes, and a number of major projects have been postponed.

Some of the serious effects of the high rates of inflation at present afflicting Canada and many other countries have been referred to above. The overall effect of inflation on corporate profits has been the subject of widespread debate in recent months and one body of thought suggests that companies should show in their annual reports to shareholders supplementary information showing profits adjusted to reflect inflation. However, it is the view of MacMillan Bloedel that some of the accounting techniques involved are insufficiently developed and others could, unless adopted on a widespread scale and applied in uniform manner, lead to confusion in interpreting annual reports.

A set of simplified financial statements of the Company follows. These statements do not reflect any adjustments for inflation but are intended to provide an easily read presentation of the general financial affairs of MacMillan Bloedel. These statements are not audited and contain some approximations. The formal audited financial statements are set out at the end of this Report.

### Additions to Property, Plant and Equipment (Net)

The total net expenditures for the year of \$143,938,317 were grouped as follows:

#### Logging

Timber, roads and logging equipment including equipment for road construction and facilities for dry land sorting ..... \$ 56,311,105

#### Building Materials

Construction of a new sawmill at Harmac, B.C., a particleboard mill at Pine Hill, Alabama and a chip-n-saw mill at Opelika, Alabama, effective completion of the mill at Thunder Bay, Ontario, pollution control projects and general improvements to operations ..... 32,456,611

#### Pulp and Paper

Pollution control projects, new equipment to reduce costs and increase efficiency at Powell River, B.C. and Saint John, N.B., and general operating improvements ..... 35,631,908

#### Packaging

Completion of new plants in Los Angeles, California and Edmonton, Alberta and general operating improvements ..... 12,097,859

#### Transportation

New self-propelled log carrier and general operating equipment ..... 6,390,446

#### Other

Research and general corporate facilities ..... 1,050,388

\$143,938,317



## Net Earnings *(unaudited)*

	Sales of Products and Services		Earnings	
	Year Ended December 31			
	1974	1973	1974	1973
	(in millions of dollars)			
Contributions from operations:				
Building materials .....	\$ 595.4	\$ 651.9	\$ 35.5	\$106.2
Pulp and paper .....	523.9	389.4	83.7	40.9
Packaging .....	204.8	173.2	15.4	13.7
Transportation .....	163.0	74.4	26.2	8.5
Other .....	3.6	2.8	1.2	7.2
	1490.7	1291.7	162.0	176.5
Less inter-company transactions .....	94.4	76.5	1.9	1.1
	<u>\$1396.3</u>	<u>\$1215.2</u>	<u>160.1</u>	<u>175.4</u>
Share of profits of other companies in which MacMillan Bloedel has a significant interest (before income taxes) .....			35.1	10.8
			<u>195.2</u>	<u>186.2</u>
Deduct:				
Unallocated general and administrative expenses .....			23.2	15.7
Interest on borrowed money .....			21.5	15.1
			<u>44.7</u>	<u>30.8</u>
Earnings before income taxes (see Note) .....			<u>\$150.5</u>	<u>\$155.4</u>
Division of earnings before income taxes:				
Governments				
Income taxes* (Canadian (Federal and Provincial), United States and various other countries).....			\$ 76.5	\$ 71.3
Shareholders				
Share of net earnings belonging to minority shareholders of certain subsidiary companies .....			1.7	2.3
Remaining net earnings belonging to MacMillan Bloedel shareholders:				
Dividends paid .....			37.1	26.2
Re-invested .....			35.2	55.6
			<u>\$150.5</u>	<u>\$155.4</u>
Note:				
Earnings before income taxes (as above) .....			<u>\$150.5</u>	<u>\$155.4</u>
Deduct:				
Current and future years' income taxes (including proportion of income taxes of partly-owned companies) .....			76.5	71.3
Minority interests in net earnings of certain subsidiary companies .....			1.7	2.3
			<u>78.2</u>	<u>73.6</u>
Net earnings per audited Consolidated Statement of Earnings (see page 30) .....			<u>\$ 72.3</u>	<u>\$ 81.8</u>

\*Including income taxes allocated to future years (excluding stumpage, property and sales taxes, and other government taxes amounting to over \$39 million which are reflected in the calculation of the contributions from operations)

**Net Assets (unaudited)**

December 31

1974 1973

(in millions of dollars)

## Working Capital:

Accounts receivable .....	\$153.3	\$143.7
Inventories .....	223.5	160.7
Prepaid expenses and miscellaneous .....	9.3	9.2
	<u>386.1</u>	<u>313.6</u>

## Deduct:

Net short term indebtedness .....	65.5	(25.4)
Accounts payable and miscellaneous liabilities .....	132.5	147.4
Instalment repayments of long term borrowings .....	10.3	10.1
	<u>208.3</u>	<u>132.1</u>

Working capital .....	<u>177.8</u>	<u>181.5</u>
-----------------------	--------------	--------------

## Add:

## Long-term Assets:

Operating plants and equipment (at cost less depreciation) .....	544.2	475.5
Timber and logging roads (net of depletion and amortization) and land .....	124.6	109.4
Investments:		
Significant investments in other companies		
(at cost plus Company's share of undistributed earnings) .....	77.6	33.1
Other investments (at cost) .....	16.3	18.0
Purchased Goodwill:		
Cost of goodwill of businesses acquired less amortization to date .....	26.0	26.7
Various costs being written off over a number of years .....	2.9	2.9
	<u>791.6</u>	<u>665.6</u>

Capital employed .....	<u>969.4</u>	<u>847.1</u>
------------------------	--------------	--------------

## Deduct:

Long term borrowings .....	316.3	251.7
Income taxes allocated to future years .....	95.8	78.3
	<u>412.1</u>	<u>330.0</u>

Net Assets .....	<u>\$557.3</u>	<u>\$517.1</u>
------------------	----------------	----------------

## Ownership of Net Assets:

Interest of minority shareholders in net assets		
of certain subsidiary companies .....	\$ 43.9	\$ 45.0
Balance of net assets belonging to MacMillan Bloedel		
shareholders (see Note) .....	<u>513.4</u>	<u>472.1</u>
	<u>\$557.3</u>	<u>\$517.1</u>

Note: As at December 31, 1974 there were 16,385 shareholders in MacMillan Bloedel.

**Capital Requirements and Source of Funds (unaudited)**

Year Ended December 31

1974 1973

(in millions of dollars)

## Capital Requirements:

## Long-term

New plant and equipment .....	\$144.5	\$ 79.9
New investments acquired .....	35.2	17.0
	<u>179.7</u>	<u>96.9</u>
Increase in current assets other than cash and short term investments .....	72.5	58.7
Decrease (increase) in current liabilities other than short term indebtedness .....	14.7	(58.1)

Total capital requirements .....	<u>\$266.9</u>	<u>\$ 97.5</u>
----------------------------------	----------------	----------------

## Source of Funds:

Funds generated from operations .....	\$134.9	\$140.9
Dividends received from partly-owned companies .....	1.4	.9
	<u>136.3</u>	<u>141.8</u>

## Deduct:

Dividends paid to minority shareholders of certain subsidiary companies .....	1.7	2.5
Dividends paid to MacMillan Bloedel shareholders .....	37.1	26.2
	<u>38.8</u>	<u>28.7</u>

Funds generated by Company and re-invested .....	<u>97.5</u>	<u>113.1</u>
--	-------------	--------------

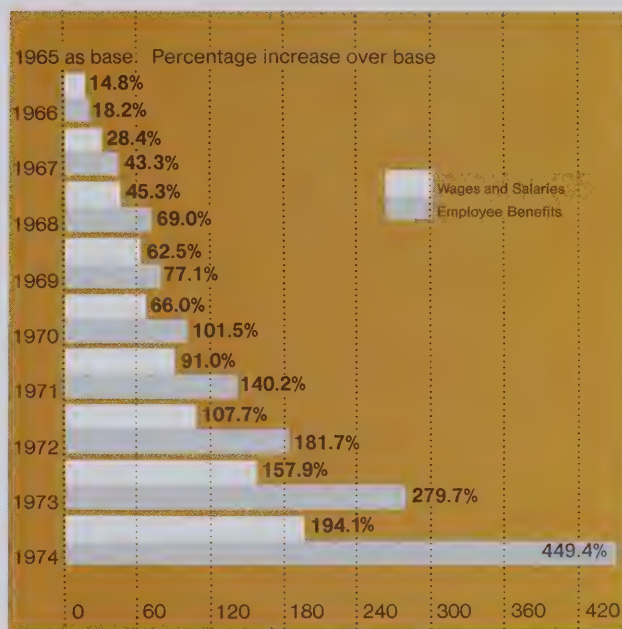
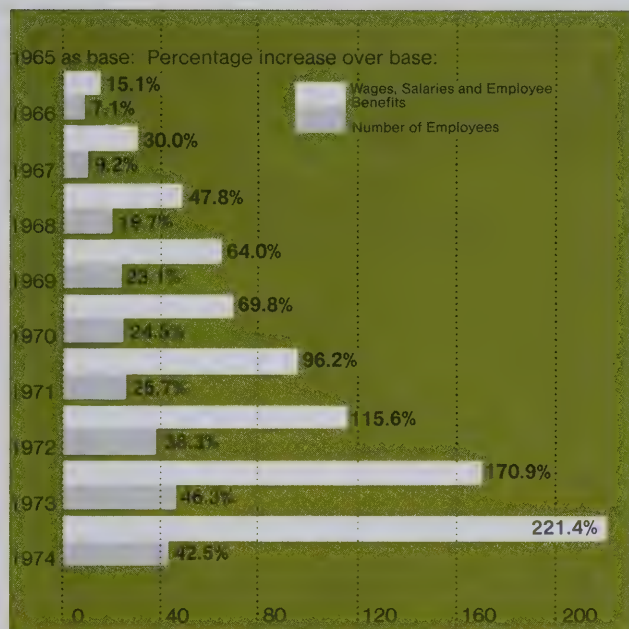
## Add:

Increase (decrease) in long term indebtedness .....	63.3	(11.8)
Money or assets received for new shares issued .....	.9	9.2
Disposal of assets and miscellaneous .....	14.3	5.9
	<u>176.0</u>	<u>116.4</u>
Increase (decrease) in short term indebtedness .....	<u>90.9</u>	<u>(18.9)</u>

Total funds available .....	<u>\$266.9</u>	<u>\$ 97.5</u>
-----------------------------	----------------	----------------



1. Percentage Increase of Wages, Salaries and Employee Benefits and Number of Employees 1965-1974
2. Percentage Increase of Wages and Salaries and Employee Benefits 1965-1974
3. Distribution of Shares and Shareholders
4. Additions to Property, Plant and Equipment (net) and Depreciation, Depletion and Amortization

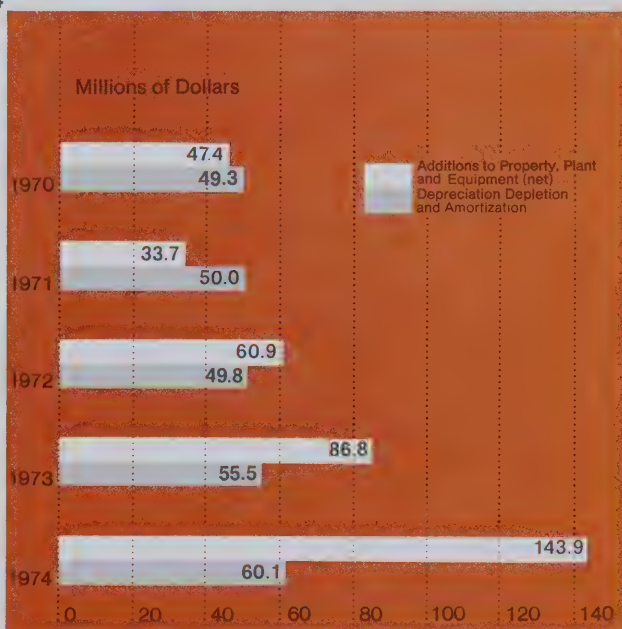


1 2  
3 4

As at December 31, 1974

	Shares	Shareholders
Canada	17,603,771	15,129
United States	3,525,225	1,061
Other	84,818	195
	<u>21,213,814</u>	<u>16,385</u>
Share Warrants	6,361	
	<u>21,220,175</u>	

In regard to the share warrants, it is estimated that 75% are held in the U.S.A. and 25% in Canada. The number of holders is not known.





## Industrial Relations

A number of steps were taken during the year to improve the climate of employee relations in all divisions of the Company.

In some instances this involved significant improvements in benefits provided for active and retired employees. In other cases it involved totally new approaches to industrial organization.

The Company believes that its benefits programme, for example, is now as liberal as any in North America. In addition to conventional benefit plans, it includes a share purchase plan for Canadian employees, together with a registered retirement savings plan option. Employees have the assurance that as long as they work for MacMillan Bloedel they are covered by benefit programmes of a high order. This fact unquestionably helps the Company attract and retain a higher quality, more stable work force.

The other aspects of improved employee relations falls into the category of personnel planning and development. Pilot projects in participative management are under way in three divisions. In these projects, the entire employee group functions as a team with a minimum of the organizational hierarchy common to most production units. Employees are directly involved in operating decisions such as work distribution, technical problems, budget setting and cost control.

Throughout the Company, plans are under way to improve job effectiveness through training and development and to provide information as to opportunities for advancement for ambitious employees. These are two areas with a direct bearing on the satisfaction people derive from their jobs.

The Company's financial affairs are now explained in detail and discussed with employees at a series of seminars called "Annual Report Day". This programme, begun last year, proved very successful in giving employees a better sense of participation in MacMillan Bloedel's development, as well as an understanding of its economic effect on their jobs and communities and it will be expanded this year.

## Outlook for 1975

The ongoing transfer of wealth from the oil consuming nations to the members of OPEC, and the persistent inflationary economies of many Western countries, represent dangers to economic stability of a kind and of a magnitude never before faced. Forecasting in the light of this fact becomes, therefore, little more than a guess as to whether the old style fiscal and monetary policies can continue to do the job of suitably regulating the economies or whether world political leaders can forge between them new philosophies and new policies which will restore and revitalize national and international trade on sound bases.

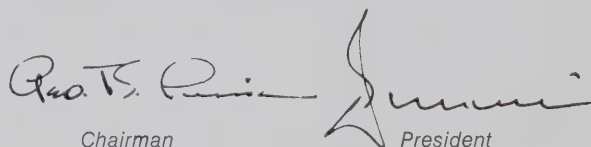
The most dominant factor in 1975 as far as MacMillan Bloedel is concerned will be the success or otherwise of the policies of the United States Administration to halt the recession and restore that country's economy to a growth pattern. If mortgage money cost and availability continue to ease it seems probable that at least moderate increases in demand for housing will occur in the latter half of 1975. The same pattern is likely to be true for building materials markets elsewhere in the world.

In the case of pulp and paper products, an excess of supply will probably occur in 1975 but the imbalance between supply and demand is not likely to reach the proportions which were seen in 1970 and 1971. The latter prognosis could prove incorrect, however, if recessionary conditions deepen despite the reflationary policies now being followed in many countries.

Because of the general slowing down of national and international trade, neither the packaging nor the transportation operations of the Company will find markets as healthy in 1975 as they did in 1974.

In summary, the Company expects 1975 to be significantly less profitable than 1974.

The Directors express their appreciation to the Company's employees around the world for their excellent efforts in 1974.

  
Chairman                      President

Vancouver, Canada  
March 17, 1975



Historical Review  
and  
Audited Financial Statements



## Historical Review

Operating	1974	1973	1972
<b>Production</b>			
Logs (M Cu. Ft.)	326,704	381,319	302,646
Lumber (M FBM)	988,147	1,286,188	1,263,466
Plywood (M Sq. Ft. $\frac{3}{8}$ " )	409,593	521,040	499,616
Shingles (Squares)	145,794	157,340	291,893
Particleboards (M Sq. Ft. $\frac{3}{8}$ " )	208,705	188,959	208,834
Specialty boards (M Sq. Ft.)	30,643	33,720	30,188
Newsprint (Short Tons)	1,197,839	1,296,245	1,222,301
Pulp (Short Tons)	477,678	454,858	493,275
Kraft paper and paperboard (Short Tons)	374,472	452,440	442,396
Fine paper (Short Tons)	33,367	31,589	28,912
Corrugated containers (M Sq. Ft.)	8,768,710	9,593,678	7,029,314
Wages, salaries and employee benefits	\$ 344,976,241	\$ 290,776,357	\$231,404,789
Number of employees at end of year	23,847	24,478	23,136
<b>Financial</b>			
Sales and other income	\$1,398,848,082	\$1,219,241,715	\$966,495,492
<b>Earnings</b>			
Amount (including extraordinary items)	\$ 72,298,532	\$ 81,752,437	\$ 40,184,186
Basic net earnings per share			
Before extraordinary items	\$ 3.41	\$ 3.90	\$ 1.80
After extraordinary items	\$ 3.41	\$ 3.90	\$ 1.92
Fully diluted net earnings per share			
Before extraordinary items	\$ 3.29	\$ 3.85	\$ 1.77
After extraordinary items	\$ 3.29	\$ 3.85	\$ 1.89
Depreciation, depletion and amortization	\$ 60,060,850	\$ 55,476,281	\$ 49,825,030
Retained earnings (deficit) for the year	\$ 40,400,498	\$ 55,538,224	\$ 19,229,912
Basic cash flow	\$ 136,322,827	\$ 141,782,008	\$ 90,933,630
Additions to property, plant and equipment (net)	\$ 143,938,317	\$ 86,770,953	\$ 60,864,748
Percentage of long term debt to total capital employed	32.6	29.7	33.5
<b>Dividends</b>			
Cash — Ordinary shares			
Amount	\$ 37,124,917	\$ 26,214,213	\$ 20,876,385
Per share	\$ 1.75	\$ 1.25	\$ 1.00
Cash — Preference shares			
Amount	—	—	\$ 77,889
Per share	—	—	\$ .03
Stock			
Amount	—	—	—
Per share	—	—	—
Number of shareholders at end of year*	16,385	17,120	19,125

\*Excluding holders of share warrants.



1971	1970	1969	1968	1967	1966	1965
338,578	307,920	359,924	310,003	274,677	273,425	238,900
1,359,605	1,180,541	1,244,260	1,279,284	1,139,437	1,037,806	1,014,757
512,377	450,029	534,950	477,728	416,664	406,271	386,457
447,701	420,929	449,837	469,598	443,816	430,852	479,983
196,535	145,078	133,154	81,992	89,905	68,557	38,016
25,331	21,419	22,668	18,235	12,950	7,517	1,580
1,216,359	1,093,765	927,868	813,748	832,361	896,361	843,968
489,308	483,059	556,468	546,761	550,245	586,867	556,135
396,618	349,298	455,654	239,285	178,382	174,462	173,018
27,439	27,631	24,331	23,292	20,801	20,043	17,868
4,608,275	4,541,820	4,603,282	4,369,452	4,075,932	3,713,726	3,017,981
\$210,630,593	\$182,260,737	\$176,071,572	\$158,644,055	\$139,566,066	\$123,580,240	\$107,328,959
21,036	20,830	20,595	20,023	18,268	17,919	16,733
\$778,024,935	\$687,838,361	\$678,784,646	\$619,988,931	\$563,332,823	\$511,773,371	\$464,404,805
\$ 25,940,577	\$ 17,870,280	\$ 42,271,225	\$ 38,679,478	\$ 36,662,621	\$ 42,213,204	\$ 40,800,160
\$ 1.08	\$ .85	\$ 2.02	\$ 1.85	\$ 1.76	\$ 2.02	\$ 1.96
\$ 1.24	\$ .85	\$ 2.02	\$ 1.85	\$ 1.76	\$ 2.02	\$ 1.96
\$ 1.08	\$ .85	\$ 2.02	\$ 1.85	\$ 1.76	\$ 2.02	\$ 1.96
\$ 1.24	\$ .85	\$ 2.02	\$ 1.85	\$ 1.76	\$ 2.02	\$ 1.96
\$ 49,993,725	\$ 49,305,374	\$ 48,113,915	\$ 39,891,207	\$ 31,922,661	\$ 29,112,129	\$ 24,720,985
\$ 15,424,497	\$ (3,083,939)	\$ 21,322,737	\$ 17,745,334	\$ 11,557,227	\$ 16,096,063	\$ 15,757,554
\$ 67,850,368	\$ 66,336,320	\$ 95,535,624	\$ 80,402,659	\$ 75,539,716	\$ 91,767,060	\$ 75,290,610
\$ 33,721,296	\$ 47,432,052	\$106,601,305	\$ 78,305,467	\$122,684,007	\$ 91,862,248	\$ 54,850,832
36.7	36.0	36.8	36.9	36.5	34.9	16.3
\$ 10,438,191	\$ 20,876,330	\$ 20,870,599	\$ 20,856,255	\$ 25,027,505	\$ 20,856,255	\$ 20,848,755
\$ .50	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.20	\$ 1.00	\$ 1.00
\$ 77,889	\$ 77,889	\$ 77,889	\$ 77,889	\$ 77,889	\$ 46,822	\$ 24,600
\$ .03	\$ .03	\$ .03	\$ .03	\$ .03	\$ .03	\$ .03
—	—	—	—	—	\$ 5,214,064	\$ 4,169,251
—	—	—	—	—	\$ .25	\$ .20
20,124	21,575	22,282	23,751	24,671	24,415	23,135



MacMillan Bloedel Limited and Subsidiaries

**Consolidated Balance Sheet**

December 31 1974

<b>Assets</b>	<b>1974</b>	<b>1973</b>
<b>Current Assets:</b>		
Cash .....	\$ 5,941,525	\$ 7,643,785
Short term investments and deposits, at cost, market value \$16,352,387 (1973—\$29,164,713) .....	16,338,145	29,154,050
Trade and other accounts receivable .....	153,344,313	143,734,965
Inventories (Note 2) .....	223,489,221	160,691,431
Prepaid expenses .....	5,368,687	5,525,146
Income tax allocations in respect of future years (Note 1(g)) .....	3,880,351	3,670,303
	<u>408,362,242</u>	<u>350,419,680</u>
<b>Investments and Other Assets:</b>		
Partly-owned companies (Notes 1(d) and 3) .....	77,601,704	33,116,614
Investments, at cost, having quoted market value of \$2,991,415 (1973—\$7,895,690) .....	3,436,858	7,073,154
Other, at cost .....	12,916,762	10,938,419
	<u>93,955,324</u>	<u>51,128,187</u>
<b>Property, Plant and Equipment:</b>		
Buildings and equipment, at cost (Note 4) .....	1,047,432,842	944,655,343
Less: Accumulated depreciation .....	503,252,841	469,141,728
	<u>544,180,001</u>	<u>475,513,615</u>
Timber, at cost less accumulated depletion of \$93,503,798 (1973—\$89,019,695) .....	76,996,798	71,567,293
Logging roads, at cost less amortization .....	34,363,695	26,011,374
Land, at cost .....	13,264,699	11,835,444
	<u>668,805,193</u>	<u>584,927,726</u>
<b>Intangible Assets (at cost less amortization):</b>		
Unallocated purchase price of shares in subsidiaries (Note 1(f)) .....	26,000,873	26,667,562
Bond and debenture financing expenses .....	2,133,177	1,475,103
Other .....	805,774	1,473,772
	<u>28,939,824</u>	<u>29,616,437</u>
	<u>\$1,200,062,583</u>	<u>\$1,016,092,030</u>



<b>Liabilities</b>	<b>1974</b>	<b>1973</b>
<b>Current Liabilities:</b>		
Bank loans and indebtedness .....	\$ 46,425,129	\$ 11,367,115
Notes payable .....	41,385,688	—
Accounts payable and accrued liabilities .....	132,411,998	112,725,649
Income taxes payable .....	60,895	34,672,759
Current portion of long term debt (Note 6) .....	10,315,729	10,134,963
	<u>230,599,439</u>	<u>168,900,486</u>
<b>Long Term Debt:</b>		
Bonds and debentures (Note 5) .....	299,830,402	234,078,283
Other secured liabilities .....	16,466,095	17,617,415
	<u>316,296,497</u>	<u>251,695,698</u>
Income Tax Allocations in Respect of Future Years (Note 1(g)) .....	<u>95,837,701</u>	<u>78,279,377</u>
Minority Interests in Subsidiaries (Note 7) .....	<u>43,882,378</u>	<u>45,045,785</u>
	<u>686,616,015</u>	<u>543,921,346</u>
 <b>Shareholders' Equity</b>		
<b>Share Capital:</b>		
Ordinary shares without par value (Notes 8, 9 and 13)—		
Authorized —25,000,000 shares		
Outstanding—21,220,175 shares		
(1973—21,192,385 shares) .....	170,154,313	169,278,927
Retained Earnings .....	<u>343,292,255</u>	<u>302,891,757</u>
	<u>513,446,568</u>	<u>472,170,684</u>
Commitments (Notes 7 and 10)		
	<u>\$1,200,062,583</u>	<u>\$1,016,092,030</u>

The consolidated financial statements have been  
approved by the Board of Directors:

G. B. Currie, Director  
D. W. Timmis, Director



MacMillan Bloedel Limited and Subsidiaries

**Consolidated Statement of Earnings**

Year ended December 31 1974

	1974	1973
Sales and other income:		
Sales of products and services (Note 11(a)) .....	\$1,396,329,758	\$1,215,190,651
Income from investments .....	3,413,331	3,246,112
Profit (loss) on disposal of property, plant and equipment and investments and other assets .....	(895,007)	804,952
	<u>1,398,848,082</u>	<u>1,219,241,715</u>
Costs and expenses (Notes 11(b) and (c) and 12):		
Cost of sales and services .....	1,169,172,473	992,937,851
Selling, general and administrative .....	92,833,363	66,696,661
Long term debt interest .....	16,915,638	14,496,884
Bank and other interest .....	4,543,178	589,323
	<u>1,283,464,652</u>	<u>1,074,720,719</u>
Earnings before income taxes and other undernoted items .....	<u>115,383,430</u>	<u>144,520,996</u>
Income taxes (Note 1(g)):		
Current .....	43,174,434	60,353,289
Future years .....	17,280,019	6,253,766
	<u>60,454,453</u>	<u>66,607,055</u>
Earnings before undernoted items .....	54,928,977	77,913,941
Equity in earnings of partly-owned companies .....	19,097,976	6,187,001
Minority interests in subsidiaries .....	(1,728,421)	(2,348,505)
Net earnings .....	<u>\$ 72,298,532</u>	<u>\$ 81,752,437</u>
Basic net earnings per ordinary share .....	\$3.41	\$3.90
Fully diluted net earnings per ordinary share (Note 11(d)) .....	<u>\$3.29</u>	<u>\$3.85</u>

MacMillan Bloedel Limited and Subsidiaries

**Consolidated Statement of Retained Earnings**

Year ended December 31 1974

	1974	1973
Balance at beginning of year .....	\$302,891,757	\$247,353,533
Net earnings .....	72,298,532	81,752,437
Surplus arising out of shares issued by subsidiary company (Note 7) .....	5,226,883	—
	<u>380,417,172</u>	<u>329,105,970</u>
Dividends—\$1.75 per share (\$1.25 per share in 1973) .....	37,124,917	26,214,213
Balance at end of year .....	<u>\$343,292,255</u>	<u>\$302,891,757</u>





MacMillan Bloedel Limited and Subsidiaries

**Consolidated Statement of Source and Application of Working Capital**

Year ended December 31 1974

	1974	1973
Source of Working Capital:		
Earnings—		
Net earnings .....	\$ 72,298,532	\$ 81,752,437
Components of net earnings not affecting working capital (credit items shown in brackets):		
Depreciation, depletion and amortization of logging roads .....	60,060,850	55,476,281
Future years' income taxes—long term portion .....	17,490,067	7,918,375
Equity in earnings of partly-owned companies .....	(19,097,976)	(6,187,001)
(Profit) loss on disposal of property, plant and equipment and investments and other assets .....	895,007	(804,952)
Minority interests in subsidiaries .....	1,728,421	2,348,505
Amortization of intangible assets .....	1,575,850	419,582
Dividends received from partly-owned companies .....	1,372,076	858,781
	136,322,827	141,782,008
Shares issued (Note 13) .....	875,386	9,243,450
Net proceeds of long term debt .....	76,083,578	3,880,708
Equity provided by minority interests in subsidiaries, net .....	4,009,557	64,811
Proceeds of disposals of property, plant and equipment .....	3,297,116	2,019,803
Proceeds of disposals of investments and other assets .....	6,981,322	4,472,528
	227,569,786	161,463,308
Application of Working Capital:		
Additions to property, plant and equipment .....	144,485,686	79,858,065
Acquisition of subsidiaries, less working capital acquired (Note 13) .....	2,557,168	10,277,448
Investments in and advances to partly-owned companies .....	26,759,190	734,224
Other investments and other assets .....	5,867,768	5,995,032
Reduction in long term debt—		
Bonds and debentures .....	10,962,642	10,622,829
Other secured liabilities .....	1,894,304	5,134,807
Purchase of preference shares for cancellation .....	—	624,948
Dividends—		
Shareholders of the company .....	37,124,917	26,214,213
Minority shareholders of subsidiaries .....	1,674,502	2,512,011
	231,326,177	141,973,577
(Decrease) increase in working capital .....	(3,756,391)	19,489,731
Working capital at beginning of year .....	181,519,194	162,029,463
Working capital at end of year .....	\$177,762,803	\$181,519,194
Changes in Working Capital Components:		
(Decreases) increases in current assets—		
Cash .....	\$ (1,702,260)	\$ 3,390,275
Short term investments and deposits .....	(12,815,905)	3,558,969
Trade and other accounts receivable .....	9,609,348	17,788,221
Inventories .....	62,797,790	37,453,550
Prepaid expenses .....	(156,459)	1,762,834
Income tax allocations in respect of future years .....	210,048	1,650,609
	57,942,562	65,604,458
Increases (decreases) in current liabilities—		
Bank loans and indebtedness .....	35,058,014	(11,976,555)
Notes payable .....	41,385,688	—
Accounts payable and accrued liabilities .....	19,686,349	34,527,939
Dividend payable .....	—	(2,087,639)
Income taxes payable .....	(34,611,864)	23,336,202
Current portion of long term debt .....	180,766	2,314,780
	61,698,953	46,114,727
(Decrease) increase in working capital .....	\$ (3,756,391)	\$ 19,489,731

*Certain 1973 comparative figures have been reclassified for conformity with 1974.*

# Auditors' Report and Notes to Consolidated Financial Statements

## Auditors' Report

To the Shareholders of MacMillan Bloedel Limited:

We have examined the consolidated balance sheet of MacMillan Bloedel Limited and subsidiaries as at December 31, 1974 and the consolidated statements of earnings, retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on a report of the auditors who have examined the consolidated financial statements of Koninklijke Nederlandse Papierfabrieken N.V., a partly-owned company accounted for by the equity method.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles which, except for the change, of which we approve, in the basis of accounting for the unallocated purchase price of shares in subsidiaries as explained in Note 1(f), have been applied on a basis consistent with that of the preceding year. In accordance with Section 212 of the British Columbia Companies Act we report that, in our opinion, due provision has been made for minority interests.

February 24, 1975  
Vancouver, B.C.

PRICE WATERHOUSE & CO.,  
Chartered Accountants.



MacMillan Bloedel Limited and Subsidiaries

## Notes to Consolidated Financial Statements

December 31, 1974

### 1. Accounting policies:

The following accounting policies used by the company are stated here to assist in understanding the consolidated financial statements.

#### (a) Principles of consolidation —

The accompanying financial statements represent the consolidation of the financial statements of the company and all its subsidiaries except Embrasca-Empreendimentos Florestais e Agrícolas Ltda., the circumstances relating to which company make it inappropriate to consolidate.

#### (b) Foreign currency translations —

The company conducts a large portion of its business in foreign markets and has substantial amounts of assets and liabilities denominated in foreign currencies which, where applicable, are translated into Canadian dollars at rates related to forward exchange contracts. Where not covered by such contracts, current assets and current liabilities are translated at the rates of exchange in effect as at the balance sheet dates, other assets (and related depreciation, depletion and amortization) and liabilities at the rates in effect at the dates on which the assets were acquired or the liabilities were incurred, and items affecting net earnings (other than inventories, depreciation, depletion and amortization) at the average rates for the year. Net balances arising from the translation of foreign currencies are included in consolidated net earnings.

#### (c) Valuation of inventories —

Inventories of logs, pulp chips, pulpwood and cordwood, and substantially all operating and maintenance supplies are valued at the lower of average cost and replacement cost. Inventories of manufactured products are valued principally at the lower of average cost and net realizable value. Lumber inventories have been valued at estimated net realizable values at December 31, 1974 pursuant to this policy. One United States subsidiary determines cost for its inventories on a last in, first out (LIFO) basis.

#### (d) Accounting for partly-owned companies —

Partly-owned companies are those companies for which the equity method of accounting is appropriate. As a result, the company's share of the net earnings of the partly-owned companies, net of applicable income taxes, is included in consolidated net earnings whether or not such earnings have been distributed currently by way of dividends. In computing the company's equity interest in the earnings of foreign partly-owned companies, the financial statements of the latter are adjusted where necessary in order to conform them to Canadian generally accepted accounting principles.



## 1. Accounting policies: (d) Accounting for partly-owned companies (continued)

The excess of the cost of investments in partly-owned companies over the company's proportionate interests in the underlying net book value of the assets of the partly-owned companies at dates of purchase amounted to \$9,567,510 at December 31, 1974 (\$731,077 at December 31, 1973). The excess has been attributed to property, plant and equipment and intangible assets and is being depreciated or amortized at appropriate straight-line rates, which process had reduced the excess as at December 31, 1974 to \$8,644,787.

### (e) Property, plant and equipment and accumulated depreciation and depletion and amortization of logging roads —

The costs of maintenance, repairs and minor renewals or replacements are charged to cost of sales and services or other expenses. The costs of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. On retirement or disposal of property, plant and equipment, the costs thereof and the related accumulated depreciation, depletion or amortization are eliminated from the accounts and any gains or losses are reflected in the consolidated statement of earnings.

Depreciation is computed on a straight-line basis on original cost at rates varying from 2½% on buildings to 15% on logging equipment; depletion of timber and amortization of logging roads are determined on a basis related to log production. Amortization of logging roads is deducted from the asset account.

The British Columbia Forest Service logging guidelines as presently administered have resulted in a substantial increase in the company's logging road construction program without a concomitant increase in the units of loggable timber developed. The company's present method and rates of amortization of logging road construction costs may therefore need to be revised. The forest industry is making representations and has had discussions with Government with a view to achieving a more flexible application of the guidelines. Pending the outcome, the company is deferring any change in accounting policy but has made a general provision in an amount of \$2,400,000 (\$.11 per share), which approximates the reduction of consolidated net earnings for the year ended December 31, 1974 (after making full allowances for related income tax reductions and the effect on closing inventory values) which would result if the current guidelines and interpretations are not relaxed.

### (f) Intangible assets —

The unallocated purchase price of shares in subsidiaries represents the excess of the purchase price over the values attributed to the underlying net tangible assets at dates of acquisition. Recent recommendations of the Canadian Institute of Chartered Accountants require amortization of intangible assets of this nature acquired after April 1, 1974 over periods not exceeding forty years. For consistency, the company has commenced amortizing (over forty years from January 1, 1974) the unallocated purchase price of shares in subsidiaries existing at that date. As a result of this change in accounting principles, consolidated net earnings for 1974 have been reduced by \$666,689 (\$.03 per share).

Amortization of bond and debenture financing expenses is computed on a basis related to the principal amounts outstanding. Other intangible assets are being amortized at appropriate straight-line rates.

### (g) Income taxes —

The company records income taxes on the tax allocation basis recommended by the Canadian Institute of Chartered Accountants. Each year, income taxes currently payable may differ from total income tax expenses of the year as a result of timing differences between the recognition of income and expenditures for accounting and tax purposes. Such differences most frequently result from depreciation being claimed for income tax purposes in amounts differing from depreciation recorded for accounting purposes and from charges to earnings in a year of items which will only be deductible for tax purposes in future years.

Any tax expense which results from a given year's operations but the payment of which is, in effect, deferred to future years is charged against that year's earnings but is recorded on the balance sheet in accounts designated "Income tax allocations in respect of future years". Similarly, tax reductions arising out of a given year's transactions but which will not actually reduce income taxes payable until future years are credited to earnings on a current basis but they too are recorded in the balance sheet in income tax allocations accounts. Such accounts are classified as current if they arise from transactions relating to current assets or liabilities, or non-current if they arise from other types of transactions.

At such time as these future years' taxes become payable or the reductions become effective, transfers are made from these accounts and are credited or charged as the case may be to the consolidated statement of earnings. Thus the future years' income tax item in the consolidated statement of earnings is frequently a composite of charges and credits and hence may be a net charge in some years and a net credit in others.

In the case of certain prior years' losses of MacMillan Rothesay Limited (which were primarily incurred during construction and start-up of that subsidiary's second paper machine) certain prescribed conditions necessary for income tax allocation accounting were not present. This basis of accounting was not, therefore, followed. The unapplied portion of these losses aggregated \$6,500,000 as at December 31, 1974.

In 1974, United States investment tax credits were deducted from United States income tax provisions in the amount of \$800,000 (\$3,300,000 in 1973). Further investment credits of \$2,400,000 are available to reduce income tax provisions in future years.

Manufacturing and processing industry corporate tax rate reductions available in Canada were applied in the calculation of current and future years' income tax expense, and the related tax reductions aggregated \$3,500,000 in 1974 (\$5,850,000 in 1973).

A provision with respect to withholding taxes applicable to the company's share of the net earnings of foreign subsidiaries and partly-owned companies has been charged to consolidated net earnings; withholding taxes are provided in respect of the entire share of net earnings of foreign partly-owned companies but are provided only on that portion of the share of foreign subsidiaries' net earnings which is not expected to be reinvested indefinitely by the subsidiary.

## Notes to Consolidated Financial Statements (continued)

### 1. Accounting policies: (continued)

#### (h) Research, development and pre-operating expenses —

It is the company's policy to charge against consolidated net earnings all such expenses as incurred rather than deferring or capitalizing them. Pre-operating expenses include all costs associated with new plant facilities except for actual capital expenditures and overhead related directly thereto.

### 2. Inventories:

	December 31	
	1974	1973
Logs, pulp chips, pulpwood and cordwood .....	\$ 70,593,357	\$ 42,666,885
Operating and maintenance supplies .....	26,883,540	20,539,365
Lumber, plywood and other building materials .....	85,497,467	65,385,289
Pulp and paper products .....	35,151,249	26,867,131
Packaging products .....	5,363,608	5,232,761
	<u>\$223,489,221</u>	<u>\$160,691,431</u>

### 3. Partly-owned companies:

	December 31	
	1974	1973
Investments in shares, at cost .....	\$46,743,316	\$21,217,935
Accumulated equity in earnings since acquisition, less dividends received .....	26,408,578	8,682,678
Advances .....	4,449,810	3,216,001
	<u>\$77,601,704</u>	<u>\$33,116,614</u>

The principal investments as at December 31, 1974 are in Koninklijke Nederlandse Papierfabrieken N.V. and La Cellulose d'Aquitaine S.A.

### 4. Buildings and equipment:

	Cost	Accumulated depreciation	Net
December 31, 1974:			
Pulp and paper mills .....	\$ 646,504,543	\$330,159,669	\$316,344,874
Sawmills, plywood mills and other building materials plants .....	151,998,240	74,959,316	77,038,924
Logging buildings and equipment .....	109,054,538	53,320,523	55,734,015
Packaging plants .....	83,612,688	27,803,187	55,809,501
Other buildings and equipment .....	56,262,833	17,010,146	39,252,687
	<u>\$1,047,432,842</u>	<u>\$503,252,841</u>	<u>\$544,180,001</u>
December 31, 1973:			
Pulp and paper mills .....	\$614,832,382	\$310,911,946	\$303,920,436
Sawmills, plywood mills and other building materials plants .....	124,043,386	68,495,968	55,547,418
Logging buildings and equipment .....	82,372,461	48,709,230	33,663,231
Packaging plants .....	73,030,068	25,136,788	47,893,280
Other buildings and equipment .....	50,377,046	15,887,796	34,489,250
	<u>\$944,655,343</u>	<u>\$469,141,728</u>	<u>\$475,513,615</u>

The company's principal plant facilities in Alabama and its head office building are held under long term leases containing provisions which indicate that the assets should be accounted for on a basis of ownership. Consequently, the cost of these leased assets, aggregating \$91,544,643 (\$88,192,568 in 1973), and related depreciation and long term debt are included in the accompanying financial statements.



**5. Bonds and debentures:**

	December 31	
	1974	1973
<b>MacMillan Bloedel Limited—</b>		
4.95% sinking fund debentures, Series A, maturing October 1, 1990 (U.S. \$33,600,000) .....	\$ 36,096,305	\$ 38,352,325
5½ % ten-year term debentures, Series B, maturing January 3, 1976 .....	50,000,000	50,000,000
6½ % sinking fund debentures, Series C, maturing July 15, 1992 (U.S. \$24,727,000) .....	26,647,107	27,541,556
7½ % debentures, Series D, maturing May 15, 1978 .....	10,000,000	10,000,000
8½ % sinking fund debentures, Series E, maturing May 15, 1991 .....	20,000,000	20,000,000
8¾ % sinking fund debentures, Series F, maturing July 1, 1994 (U.S. \$75,000,000) .....	72,399,200	—
8½ % subordinated convertible debentures, maturing December 20, 1984 (U.S. \$3,373,000) (Note 8) .....	3,335,560	—
	<u>218,478,172</u>	<u>145,893,881</u>
<b>MacMillan Bloedel Inc.*—</b>		
4.10% industrial development revenue bonds, maturing June 1, 1975 (U.S. \$705,000) .....	757,875	3,773,250
4¾ % sinking fund industrial development revenue bonds, maturing June 1, 1988 (U.S. \$53,545,000) .....	57,560,875	58,050,000
	<u>58,318,750</u>	<u>61,823,250</u>
<b>MacMillan Rothesay Limited—</b>		
6% first mortgage and collateral sinking fund bonds, Series A, , maturing March 1, 1985 (U.S. \$9,190,000) .....	9,879,250	10,771,500
6¾ % general mortgage sinking fund bonds, Series A, maturing October 1, 1985 ....	6,755,000	6,965,000
7½ % debenture certificate, due December 31, 1979 .....	22,500	22,500
	<u>16,656,750</u>	<u>17,759,000</u>
<b>MacMillan Bloedel Industries Limited—</b>		
Sinking fund debentures:		
5¾ % twenty-year debentures, Series A, maturing May 15, 1978 .....	4,200,000	4,289,000
4¾ % twenty-year debentures, Series B, maturing May 15, 1978 (U.S. \$2,650,000)	2,549,797	2,742,234
	<u>6,749,797</u>	<u>7,031,234</u>
<b>Burnaby Paperboard Ltd.—</b>		
First mortgage and collateral trust bonds:		
1955 Series—		
4½ % sinking fund bonds, maturing September 1, 1975 .....	2,551,500	2,686,500
1958 Series—		
5¾ % sinking fund bonds, maturing May 15, 1978 .....	1,155,500	1,271,500
	<u>3,707,000</u>	<u>3,958,000</u>
<b>Lee Timber Products Inc.**—</b>		
5½ % first mortgage industrial revenue bonds, maturing August 1, 1976 (U.S. \$4,000,000) .....	3,980,000	3,000,000
<b>Kingsway Lumber Co. Limited—</b>		
6¾ % sinking fund debentures:		
Series A, maturing December 15, 1982 .....	466,000	559,500
Series B, maturing February 1, 1985 .....	456,000	469,000
	<u>922,000</u>	<u>1,028,500</u>
	<u>308,812,469</u>	<u>240,493,865</u>
<b>Less: Payments due within one year, before adjustment to current rate of exchange (Notes 1(b) and 6) .....</b>	<b>8,982,067</b>	<b>6,415,582</b>
	<u>\$299,830,402</u>	<u>\$234,078,283</u>

\*These industrial development revenue bonds are direct obligations of The Industrial Development Board of the Town of Camden, Alabama (see Note 4).

\*\*These industrial revenue bonds are direct obligations of The Industrial Development Board of the City of Opelika, Alabama (see Note 4).

## Notes to Consolidated Financial Statements (continued)

### 5. Bonds and debentures: (continued)

Bonds and debentures repayable in U.S. currency at December 31, 1974 aggregating \$206,790,000 have been translated into Canadian dollars at appropriate current and historical exchange rates. On the basis of exchange rates in effect at December 31, 1974 there were unrealized gains on foreign exchange of approximately \$8,000,000 which have not been recognized in the accompanying consolidated financial statements.

On January 28, 1975 the company issued \$40,000,000 principal amount of 11¼% Sinking Fund Debentures, Series G, due January 15, 1995. After deducting commissions of \$700,000, the company received proceeds of \$39,300,000. Other expenses of issue are estimated at \$170,000.

The majority of the companies' assets are pledged by fixed and floating charges as security for the bonds, debentures and other secured liabilities outstanding. The principal trust indenture and supplementals thereto securing the company's debentures contain restrictions on the payment of dividends. Under the most restrictive of these provisions, computed as of December 31, 1974, approximately \$38,000,000 were available for payment of dividends.

### 6. Payments on long term debt:

Payments on long term debt required for each of the five years after December 31, 1974 are as follows:

	Bonds and debentures	Other secured liabilities	Total
1975 (after adjustment to current rate of exchange—Notes 1(b) and 5) .....	\$ 8,442,970*	\$1,872,759*	\$10,315,729
1976.....	62,907,187*	1,640,694	64,547,881
1977.....	11,665,536*	1,385,477	13,051,013
1978.....	23,858,665	307,367	24,166,032
1979.....	14,573,619	261,642	14,835,261

\*Net of purchases and cancellation of long term debt up to December 31, 1974.

### 7. Minority interests in subsidiaries:

	December 31	
	1974	1973
Preference shareholders .....	\$30,241,550	\$31,841,550
Common shareholders .....	13,640,828	13,204,235
	<u>\$43,882,378</u>	<u>\$45,045,785</u>

During 1972 MacMillan Rothesay Limited, a partly-owned subsidiary, issued \$30,000,000 of 4% cumulative redeemable preference shares. The company has undertaken to purchase these shares or otherwise effect their redemption by June 30, 1975 and to ensure that dividends on these shares are declared and paid on their due dates.

In July, 1974, MacMillan Rothesay Limited entered into agreements with Spanish interests whereby it agreed to issue common shares equivalent to a 35% minority interest. The sale of the shares was completed in two parts, on July 31, 1974 and January 31, 1975. The excess of the proceeds on the disposition of the interest represented by the shares issued on July 31, 1974 over the company's underlying equity therein, constituting contributed surplus in accordance with current generally accepted accounting practice, has been credited directly to consolidated retained earnings. Upon the issue of the remaining shares on January 31, 1975, \$14,000,000 was received of which approximately \$12,000,000 will be accounted for as minority interest.

### 8. Share capital:

As in prior years, outstanding ordinary shares include share warrants which entitle the holders, without further financial consideration, to exchange the warrants for a like number of registered shares. Effective January 1, 1974 the regulations governing share warrants of the company were amended to conform with the British Columbia Companies Act, so that holders of warrants are not members of the company, are not entitled to vote at shareholders' meetings, and are not, by right of holding the warrants, entitled to any dividends declared on the issued ordinary shares of the company after January 1, 1974. There were 6,361 share warrants outstanding at December 31, 1974 (1973—342,847 warrants).

The Company has reserved 112,433 authorized but unissued ordinary shares for possible issue in exchange for the 8½% subordinated convertible debentures maturing December 20, 1984 (U.S. \$3,373,000) which were issued by the company on December 20, 1974 in connection with the acquisition of a minority share interest in Industrial-America Corporation. The debentures are convertible at any time prior to December 21, 1979 at the option of the holders into ordinary shares of the company at the rate of 33⅓ ordinary shares for each \$1,000 face value of debentures. Because the debentures were issued late in the year, conversion into ordinary shares as at the date of issue would not have had any effect on net earnings per share.

### 9. Stock options:

Under the company's stock option plan, options for ordinary shares may be granted to key employees, exercisable by dates fixed by the Board of Directors, at share prices equal to at least 90% of the closing price on the Vancouver Stock Exchange on the last business day before the options were granted. Options for 29,500 shares at \$29.70 per share lapsed on November 6, 1974. On October 8, 1974 the company granted five year options to certain key employees amounting in aggregate to 129,500 shares at \$20.30 per share, all of which were outstanding at December 31, 1974.



## 10. Commitments:

The company and its subsidiaries are committed in respect of the following:

(a) Minimum commitments under ship charters and rentals under non-cancellable leases having an initial term of more than one year (reduced by subcharters and sublease rentals of approximately \$16,800,000) as follows—

	Ship charters	Other leases	Total
1975 .....	\$98,789,699	\$ 4,895,504	\$103,685,203
1976 .....	69,645,790	3,845,843	73,491,633
1977 .....	31,027,972	3,263,519	34,291,491
1978 .....	14,314,291	2,392,668	16,706,959
1979 .....	6,799,256	1,942,402	8,741,658
1980-84 .....	2,652,077	4,518,737	7,170,814
1985-89 .....	—	2,414,728	2,414,728
1990-94 .....	—	1,610,014	1,610,014
Subsequent to 1994 .....	—	4,891,906	4,891,906
	<u>\$223,229,085</u>	<u>\$29,775,321</u>	<u>\$253,004,406</u>

In the majority of cases, the ship charter commitments above include components to cover the costs of manning and other operating expenses (but not fuel), as well as bare boat and owners' profit components.

(b) Agreements to charter two large vessels for periods aggregating 15 years following their construction and delivery, scheduled for June and November 1976. The commitment in these agreements is conditional upon the happening of certain events. Aggregate annual charter hire, including manning and other operating expense components, is estimated currently at \$9,000,000.

(c) The acquisition of timber in Alabama under long term cutting contracts requiring minimum annual payments (extending in some cases to the year 2033); payments of approximately \$2,200,000 are required in each of the next five years and in diminishing amounts thereafter.

## 11. Earnings statement supplementary information:

(a) Sales include the sales of products purchased from other manufacturers on which the margin of gross profit realized by the company is less than that realized on the sales of its own manufactured products.

(b) Costs and expenses include the following:

	Year ended December 31	
	1974	1973
Depreciation .....	\$44,979,001	\$41,576,757
Depletion .....	5,315,666	5,946,302
Amortization of logging roads .....	9,766,183	7,953,222
	<u>\$60,060,850</u>	<u>\$55,476,281</u>
Rental expense on leases of more than one month and time charter* hire, including \$27,200,000 (1973—\$7,600,000) being estimated manning and other operating costs, less sublease and subcharter revenue of \$44,238,000 (1973—\$2,690,000) included with sales and other income in the statement of earnings .....	<u>\$36,695,727</u>	<u>\$23,520,997</u>

\*Time charters represent all charters except single voyage spot charters.

(c) Selling, general and administrative expenses include remuneration paid to the directors and senior officers of the company aggregating \$2,084,587 (1973—\$1,840,558).

(d) A major partly-owned company, Koninklijke Nederlandse Papierfabrieken N.V., issued debentures in 1972 which, beginning in 1975, are convertible at the holders' option into common shares of that company. Had such a conversion taken place at the beginning of 1974, the effect would have been to reduce the company's equity in earnings of partly-owned companies by \$2,560,000 (\$.12 per share). The comparable figure for 1973 would have been \$976,000 (\$.05 per share).

## 12. Pension plans:

The company has a number of contributory and non-contributory pension plans, participation in which is available to substantially all employees after one or two years' continuous service. Additionally, the company has agreements with a number of its officers and executives (including some now retired) which call for payments to be made under certain conditions following retirement. Pension and retirement benefits are determined as a function of service and earnings. It is the company's policy to provide for the cost of pension and retirement benefits accrued through charges to earnings derived from periodic actuarial computations. The value of pension benefits for all plans and the liability for unfunded agreements as of

## Notes to Consolidated Financial Statements (continued)

### 12. Pension plans: (continued)

December 31, 1973 were estimated to exceed the total of the pension funds and the balance sheet accruals by approximately \$2,150,000. On the basis of updated current estimates, it appears that the deficiency could have increased to approximately \$23,000,000 after normal funding payments and accruals to December 31, 1974. This deficiency has occurred due to strong inflationary pressures in 1974 combined with reduced market values of securities at the end of the year. While the company would normally defer making changes in the amortization of such pension deficiencies until receiving full actuarial reports, it has been deemed prudent to make an additional provision of \$5,100,000 (\$2,600,000 after related income taxes) for the amortization of pension costs for the year ended December 31, 1974. This represents an approximate amortization of the deficiency over a five year period. Such amortization in future periods could, of course, be affected by changes in market values of pension assets and rates of inflation. The total expense for the above plans and agreements (including the additional provision) amounted to \$13,690,000 for the year ended December 31, 1974 (\$4,904,000 for the year ended December 31, 1973).

The company also contributes to a number of governmental pension plans, covering its employees in various countries. The pension expense of these plans amounted to \$4,600,000 for the year ended December 31, 1974 (1973—\$3,824,000).

### 13. Acquisitions:

During the year the company made the following acquisitions. In each case, the transaction was accounted for by the purchase method and the results of operations have been consolidated from the effective dates of acquisition.

Name	Description	% Interest	Effective date of acquisition
Walpole Woodworkers, Inc.	Fencing, specialty building materials—Massachusetts and North Carolina	83	June 1, 1974
Energex Limited (see below)	Low emission waste burners—California	99	February 1, 1974
Scotpack Limited	Corrugated Containers—Scotland	100	June 1, 1974
Urban Fiber Industries, Incorporated	Newsprint de-inking—California	100	August 1, 1974
Plastics Products Plant	Blow moulding, thermal forming—Alberta	100	April 1, 1974

Prior to December 31, 1974 the shares of Energex Limited were sold to Industrial-America Corporation concurrently with the acquisition of a minority interest in that company. Walpole Woodworkers, Inc. was acquired through the issue of 27,790 ordinary shares (aggregating .1% of ordinary shares outstanding at December 31, 1974), at an agreed consideration of \$875,386. The other businesses were acquired for an aggregate cash consideration of \$1,530,804. Because the acquisitions were all small, consolidated sales and net earnings were not appreciably affected.

### 14. Subsidiary companies:

#### Active

#### CANADA

Canadian Transport Company Limited  
 Canadian Transport (Europe) Limited  
 Forest Industries Flying Tankers Limited  
 Forest Transport Ltd.  
 Kingcome Navigation Company Limited  
 Kingsway Lumber Co. Limited  
 R. Laidlaw Lumber Co. Limited  
 MacMillan Bloedel (Alberni) Limited  
 MacMillan Bloedel Building Limited  
 MacMillan Bloedel Building Materials (B.C.) Limited  
 MacMillan Bloedel Building Materials Limited  
 MacMillan Bloedel Building Materials (Supply) Ltd.  
 MacMillan Bloedel Industries Limited  
 MacMillan Bloedel Machinery Limited  
 MacMillan Bloedel Packaging Limited  
 MacMillan Bloedel Properties Limited  
 MacMillan Bloedel (Quebec) Limited  
 MacMillan Bloedel Research Limited  
 MacMillan Bloedel (Saskatchewan) Limited  
 MacMillan Rothesay Limited  
 Martin Paper Bags Ltd.  
 Multiply Plywoods Limited

#### Inactive (including holding companies not carrying on active operations)

Alberni Pacific Lumber Company Limited  
 Allied Paper Products Ltd.  
 Alpa Products Ltd.  
 Alsto Distributors (Calgary) Ltd.  
 Alsto Distributors Limited  
 B.N.P. Airways Limited  
 Burnaby Paperboard Ltd.  
 C. & G. Timberland Management Limited  
 C.M.L. Builders Supplies Limited  
 Canadian White Pine Co. Limited  
 Canal Lumber Co. Ltd.  
 Coast Research Associates Limited  
 E. L. Bruce Company, Limited  
 Elton Logging Company Limited  
 Hamilton Logging Ltd.  
 Harmac Ltd.  
 Island Paper Mills Limited  
 Kelley Spruce Ltd.  
 Laico Limited  
 MacMillan Bloedel (Alberta) Limited  
 MacMillan, Bloedel and Powell River (Edmonton) Limited  
 MacMillan Bloedel Enterprises Ltd.



## 14. Subsidiary Companies: (continued)

### Active

#### CANADA

National Paper Box Limited  
 Rothesay Shipping Ltd.  
 Vancouver Island Stevedoring Co. Ltd.  
 Vancouver Marine Engines Ltd.  
 West Coast Transport Company Limited

#### UNITED STATES

Atlantic Forest Products Company  
 Canadian Gulf Lines, Inc.  
 Canadian Gulf Line of Florida, Inc.  
 Fibres International, Inc.  
 Florida Lines, Limited  
 Lee Timber Products, Inc.  
 MacMillan Bloedel (Alabama) Inc.  
 MacMillan Bloedel Containers Inc.  
 MacMillan Bloedel Enterprises Inc.  
 MacMillan Bloedel Export Inc.  
 MacMillan Bloedel Inc.  
 MacMillan Bloedel (New York) Inc.  
 MacMillan Bloedel Particleboard Inc.  
 MacMillan Bloedel Sales Inc.  
 MacMillan Bloedel (USA) Inc.  
 Powell River-Alberni Sales Corporation  
 Star Terminal Company, Incorporated  
 States Navigation Corporation  
 Urban Fiber Industries, Incorporated  
 Walpole Woodworkers, Inc.

#### UNITED KINGDOM

Canadian Transport (Terminals) Limited  
 MacMillan Bloedel Containers Limited  
 MacMillan Bloedel Meyer Limited  
 MacMillan Bloedel Meyer (Terminals) Limited  
 MacMillan Bloedel Panelboard Agencies Limited  
 MacMillan Bloedel Pulp and Paper Sales Limited  
 Scotpack Limited

#### OTHER

Altair Limited\*  
 Canadian Transport Company Pty. Limited  
 Embrasca-Empreendimentos Florestais e Agrícolas Ltda.  
 Island Risk Management Limited  
 MacMillan Bloedel Holdings S.A.  
 MacMillan Bloedel Pty. Limited  
 MacMillan Jardine (Japan) Limited  
 MacMillan Jardine Limited  
 MacMillan Jardine (Malaysia) Sdn. Bhd.  
 MacMillan Jardine (South East Asia) Limited  
 Mats Janson & Co. AB  
 Swedish Gulf Line, AB

### Inactive (including holding companies not carrying on active operations)

MacMillan Bloedel Export Sales Ltd.  
 MacMillan Bloedel (Manitoba) Limited  
 MacMillan Bloedel (Ontario) Limited  
 MacMillan Bloedel Sales Limited  
 Northwest Bay Logging Company Limited  
 Northwest Cedar Products Limited  
 Powell River-Alberni Sales Limited  
 Powell River Co. Ltd.  
 Rothesay Paper Holdings Ltd.  
 Rothesay Paper Limited  
 Salmon River Logging Company Limited  
 Squamish Valley Timber Ltd.  
 The Shawnigan Lake Lumber Company Limited  
 Victoria Lumber Company Limited

MacMillan Bloedel Investment Inc.  
 MacMillan Bloedel Radio System, Inc.  
 MacMillan Bloedel Subsidiary 74 Inc.  
 MacMillan Bloedel Timberlands Inc.  
 The Alberni Paper Company, Inc.  
 The Hankins Container Company

Cooks Corrugated Cases Limited  
 Hygrade Corrugated Cases Limited

Canadian Maas River Investment N.V.  
 Canadian Transport (Bermuda) Ltd.

\*November 30 year end for fiscal purposes.

# MacMillan Bloedel Limited Head Office: 1075 West Georgia Street, Vancouver, B.C. V6E 3R9

## Operations, sales offices and distribution centres

### Logging Operations, B.C.

Alliford Bay  
Ash  
Cameron  
Chemainus  
Cous  
Cyprus  
Dinan Bay  
Estevan  
Eve River  
Franklin River  
Gilford Island  
Hecate  
Jervis Inlet  
Juskatla  
Kelsey Bay  
Kennedy Lake  
Kitimat  
Knight Inlet  
Menzies Bay  
Misery Creek  
Northwest Bay  
Phillips Arm  
Port Hardy  
Port McNeill  
Powell Lake  
St. Vincent Bay  
Sarita River  
Shawnigan  
Skidegate  
Sombrio Point  
Squamish  
Stillwater  
Taylor  
Theodosia  
Tofino  
Turnour Island  
Wilson Creek

### Wood Preserving

New Westminster, B.C.

### Lumber

Chemainus, B.C.  
Harmac, B.C.  
New Westminster, B.C.  
Opelika, Alabama  
Pine Hill, Alabama  
Port Alberni, B.C.  
Powell River, B.C.  
Vancouver, B.C.

### Plywood

Nipigon, Ontario  
Pine Hill, Alabama  
Port Alberni, B.C.  
Vancouver, B.C.

### ASPENITE\* Panels

Hudson Bay, Saskatchewan  
Thunder Bay, Ontario

### Particleboard

Pine Hill, Alabama  
Vancouver, B.C.

### Wood Products Specialties

Canada  
New Westminster, B.C.  
*Lumber Specialties*  
Port Alberni, B.C.  
*Shingles*  
*Lumber Specialties*  
Toronto, Ontario  
*Mouldings*  
*Roof Trusses*  
Vancouver, B.C.  
*Panelboard Specialties*  
*Pres-to-logs*

United States

Walpole Woodworkers, Inc.  
Chester, Maine  
Corapeake, N.C.

Detroit, Maine  
Suffolk, Va.  
Walpole, Mass.  
*Lumber Specialties*

### Newsprint and Groundwood Papers

Port Alberni, B.C.  
Powell River, B.C.  
Saint John, N.B.

### Pulp

Harmac, B.C.  
*Bleached Sulphate*  
*Semi-bleached Sulphate*  
Port Alberni, B.C.  
*Unbleached Sulphate*  
Powell River, B.C.  
*Semi-bleached Sulphate*

### Other Paper and Board Products

New Westminster, B.C.  
*Fine Papers*  
Pine Hill, Alabama  
*Linerboard*  
Port Alberni, B.C.  
*Linerboard*

### Corrugated Containers

Canada  
Winnipeg, Man.  
Regina, Sask.  
Edmonton, Alta.  
Calgary, Alta.  
New Westminster, B.C.

### United Kingdom

Carnoustie, Angus  
Hatfield, Herts.  
Irvine, Ayr.  
Nelson, Lancs.  
Southall, Middlesex  
West Auckland, Co. Durham  
Weston-super-Mare, Somerset

### United States

Elmira, N.Y.  
Jersey City, N.J.  
Union, N.J.  
Odenton, Md.  
Cleveland, Ohio  
Centerville, Ohio  
Marion, Ind.  
Chicago, Ill.  
Magnolia, Miss.  
Little Rock, Ark.  
Houston, Texas  
Los Angeles, Calif.

### Cartons

Burnaby, B.C.  
*Folding and Rigid Cartons*  
*Milk Cartons*  
*Specialty Cartons*

### Bags and Specialties

Burnaby, B.C.  
*Kraft Paper Bags*  
*Notion and Millinery Bags*  
*Wrapping Papers*

### Plastic Products

Edmonton, Alta.  
*Blow Moulded Bottles*  
*Thermoformed Containers*

### Sales Offices and Distribution Centres

#### Building Materials

Canada  
Eastern  
Dartmouth, N.S.  
Moncton, N.B.  
Drummondville, Que.  
Montreal, Que.  
Quebec City, Que.  
Rimouski, Que.  
Belleville, Ont.  
Brantford, Ont.  
Chatham, Ont.

Fonthill, Ont.  
Kitchener, Ont.  
London, Ont.  
Orillia, Ont.  
Ottawa, Ont.  
Owen Sound, Ont.  
Sudbury, Ont.  
Timmins, Ont.  
Toronto, Ont.  
Windsor, Ont.

### R. Laidlaw Lumber Co. Limited

Noranda, Que.  
London, Ont.  
North Bay, Ont.  
Ottawa, Ont.  
Sault Ste. Marie, Ont.  
Thunder Bay, Ont.

### Kingsway Lumber Co. Limited

Toronto, Ont.

### Western

Winnipeg, Man.  
Regina, Sask.  
Saskatoon, Sask.  
Edmonton, Alta.  
Calgary, Alta.  
Lethbridge, Alta.  
Vancouver, B.C.  
Chemainus, B.C.  
Port Alberni, B.C.

### United States

Stamford, Conn.  
Birmingham, Ala.  
Honolulu, Hawaii

### United States

#### Blanchard Lumber Company

Walpole, Mass.  
Rensselaer, N.Y.  
Wayne, N.J.  
Camden, N.J.  
Baltimore, Md.  
Fort Lauderdale, Fla.  
Jacksonville, Fla.  
West Hartford, Conn.  
Atlanta, Ga.  
Portsmouth, Va.  
Houston, Texas  
Portland, Ore.

### United Kingdom

MacMillan Bloedel Meyer Limited  
London  
MacMillan Bloedel Panelboard  
Agencies Limited  
London

### Australia

MacMillan Bloedel Pty. Limited  
Sydney, Melbourne

### Orient

MacMillan Jardine Limited  
Hong Kong, Tokyo

### Pulp and Paper

Australia  
MacMillan Bloedel Pty. Limited  
Sydney, Melbourne

### Orient

MacMillan Jardine Limited  
Hong Kong, Tokyo, Singapore,  
Malaysia and Thailand

### United Kingdom and Europe

MacMillan Bloedel Pulp and  
Paper Sales Limited  
London, Brussels

### United States

MacMillan Bloedel Sales Inc.  
Stamford, Conn., Atlanta, Ga.  
Powell River-Alberni Sales  
Corporation  
Seattle, Wash., San Francisco,  
Pasadena, Calif.

\*Registered Trade Mark of  
MacMillan Bloedel Limited



## Directors

**Anson Brooks** *Seattle, Washington, U.S.A.*  
President, Powell River-Alberni Sales Corporation

**A. B. Christopher** *Vancouver, British Columbia*  
President, Montrose Development Ltd.

**The Honourable J. V. Clyne C.C.**  
*Vancouver, British Columbia*  
Retired — Formerly Chairman of the Board,  
MacMillan Bloedel Limited

**G. B. Currie** *Vancouver, British Columbia*  
Chairman of the Board and Chief Financial Officer,  
MacMillan Bloedel Limited

**L. G. Harris** *Vancouver, British Columbia*  
Executive Vice-President, International,  
MacMillan Bloedel Limited

**J. O. Hemmingsen** *Vancouver, British Columbia*  
Executive Vice-President, Natural Resources,  
MacMillan Bloedel Limited

**G. H. D. Hobbs** *Vancouver, British Columbia*  
President, Cominco Ltd.

**J. N. Hyland** *Vancouver, British Columbia*  
President, Granduc Mines, Limited

**Henry Keswick** *Hong Kong,*  
Chairman and Senior Managing Director,  
Jardine, Matheson & Co., Limited

**N. J. McKinnon** *Toronto, Ontario*  
Retired — Formerly Chairman,  
Canadian Imperial Bank of Commerce

**J. M. Meyer C.B.E.** *London, England*  
Chairman and Managing Director,  
Montague L. Meyer Limited

**J. E. Richardson** *Vancouver, British Columbia*  
Chairman and Chief Executive Officer,  
British Columbia Telephone Company

**I. D. Sinclair Q.C.** *Montreal, Quebec*  
Chairman and Chief Executive Officer,  
Canadian Pacific Limited

**G. T. Southam** *Vancouver, British Columbia*  
President, Pioneer Envelopes Ltd.

**W. J. Stenason** *Montreal, Quebec*  
Executive Vice-President,  
Canadian Pacific Investments Limited

**J. A. Taylor** *London, Ontario*  
Chairman, Canada Trust

**D. W. Timmis** *Vancouver, British Columbia*  
President and Chief Executive Officer,  
MacMillan Bloedel Limited

**Frederick Wilson** *Spokane, Washington, U.S.A.*  
Investment Counsel

**C. B. Wright** *Seattle, Washington, U.S.A.*  
President, Pentagram Corporation

## Honorary Directors

**H. R. MacMillan** *Vancouver, British Columbia*

**W. J. VanDusen** *Vancouver, British Columbia*

## Executive Committee

**G. B. Currie** (*Chairman*)

**G. H. D. Hobbs**

**J. N. Hyland**

**J. E. Richardson**

**D. W. Timmis**

**C. B. Wright**

## Officers

**G. B. Currie** *Chairman of the Board  
and Chief Financial Officer*

**D. W. Timmis** *President and Chief Executive Officer*

**L. G. Harris** *Executive Vice-President, International*

**J. O. Hemmingsen** *Executive Vice-President,  
Natural Resources*

**R. G. Chestnut** *Group Vice-President, Transportation*

**J. R. Forrest** *Group Vice-President,  
Forestry and Building Materials*

**B. I. Howe** *Group Vice-President, Pulp and Paper*

**H. V. Townsend** *Group Vice-President, Packaging*

**F. H. Britton Q.C.** *Secretary and General Counsel*

**K. G. Boyd** *Vice-President, Wood Supply*

**H. R. Chisholm** *Vice-President,  
Raw Material Planning and Allocation*

**C. M. Dee** *Vice-President and General Manager,  
Panelboards*

**P. M. Downes** *Vice-President, Corporate Communications*

**S. W. Forstrom** *Vice-President, Newsprint Production*

**R. L. Gillen** *Vice-President,  
Strategic Planning and Development*

**J. H. Lawson** *Vice-President and General Manager,  
Lumber and Shingles*

**A. C. McGougan** *Vice-President, Trading, Pulp and Paper*

**D. L. McLaughlin** *Vice-President and General Manager,  
Pulp and Linerboard*

**D. H. Parkinson** *Vice-President, Finance*

**J. S. Rogers** *Vice-President, Engineering, Pulp and Paper*

**R. V. Smith** *Vice-President and General Manager, Newsprint*

**G. J. Towill** *Vice-President, Industrial Relations*

**D. B. Turner** *Vice-President, Logging*

**G. L. Ainscough** *Chief Forester*

**Dr. L. A. Cox** *Director, Scientific and Technological  
Assessment*

**T. P. Boyle** *Corporate Controller*

**J. G. Dickinson** *General Manager, Ventures Group*

**Dr. O. L. Forgacs** *Research Director*

**D. H. Fricker Q.C.** *Corporate Solicitor*

**E. G. Legg** *Treasurer*

**J. O. Miller** *Director, Administrative Services*

**J. G. C. Cunningham** *Assistant Secretary*

**R. D. MacFayden** *Assistant Secretary*

## Registrars and Transfer Agents

**The Royal Trust Company** *Vancouver*

**The Canada Trust Company**  
*Calgary, Regina, Winnipeg, Toronto, Montreal*

**The Chase Manhattan Bank** *New York*

## Auditors

**Price Waterhouse & Co.** *Vancouver*

## Audit Committee

**J. N. Hyland** (*Chairman*)

**G. H. D. Hobbs**

**J. E. Richardson**

**C. B. Wright**





## CONSOLIDATED BALANCE SHEET (in millions of dollars)



MacMillan Bloedel Limited

and Subsidiary Companies

# Report to the Shareholders for the First Half of 1974

The consolidated net earnings of MacMillan Bloedel Limited for the six months ended June 30, 1974 amounted to \$50,217,000 or \$2.37 per share (\$2.31 on a diluted basis) as compared with \$50,775,000 or \$2.43 per share (\$2.41 on a diluted basis) in the similar period in 1973\*. Sales and other income were \$720,927,000 in the first half of 1974 as compared to \$605,932,000 in 1973.

Selling prices for most building materials exceeded those levels obtained in the first half of 1973 but escalating logging and production costs resulted in decreased profit margins in this sector of the Company's operations. Lower shipments caused by a reduction in construction activity and production disruptions further depressed the profits from building materials.

This was, however, offset to a large extent by the increased profit contribution from pulp and newsprint. International and domestic markets for these commodities remained in a short supply position throughout the first half of 1974 with resultant upward movements in price levels. Similar tight markets existed for linerboard and strength in both price and shipments partially compensated for the production volume lost during the first quarter strike at the Pine Hill mill in Alabama.

Despite difficulties in securing supplies, the Company's packaging operations in Canada, the United States and the United Kingdom continued to increase their contribution to consolidated net results. MacMillan Bloedel Limited's transportation operations benefitted from high freight rates and sub-chartering opportunities to significantly increase the profits from this area. The strong market in Europe for fine papers and hardwood pulp resulted in higher earnings attributable to partly-owned companies.

The earnings performance in the first half of 1974 has been achieved in the face of a continuing lower value of the United States dollar on foreign exchange markets and production disruptions at some of the Company's major facilities. The labour contract with the International Woodworkers of America expired on June 15, 1974 and, following prolonged negotiations, agreement was reached on a new contract involving substantial increases in

\* per share earnings calculated on the basis of 20,876,385 shares outstanding for the 1973 period and 21,197,017 shares outstanding in 1974.

	1974	JUNE 30 1973
<b>ASSETS</b>		
Current assets	\$ 378.1	\$ 340.0
Investments and other assets	78.8	45.0
Property, plant and equipment less accumulated depreciation, depletion and amortization	617.2	557.9
Intangible assets	29.3	28.6
	<u>\$1,103.4</u>	<u>\$ 971.5</u>

<b>LIABILITIES</b>		
Current liabilities	\$ 232.8	\$ 150.6
Long term debt	246.3	255.1
Income tax allocations in respect of future years	82.0	72.9
Minority interests in subsidiaries	35.0	45.1
	<u>596.1</u>	<u>523.7</u>

<b>SHAREHOLDERS' EQUITY</b>		
Share capital	170.1	160.0
Retained earnings	337.2	287.8
	<u>507.3</u>	<u>447.8</u>
	<u>\$1,103.4</u>	<u>\$ 971.5</u>

Unaudited

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS (in millions of dollars)

	1974	SIX MONTHS ENDED JUNE 30 1973
Balance at beginning of period	\$ 302.9	\$ 247.4
Net earnings	50.2	50.8
	<u>353.1</u>	<u>298.2</u>
Dividends \$.75 per share (\$.50 in 1973)	15.9	10.4
Balance at end of period	<u>\$ 337.2</u>	<u>\$ 287.8</u>

Unaudited

NOTES: On July 9, 1974 the Company completed the sale of \$75 million (U.S.) 8% debentures, Series F, the proceeds of which were applied to retire short term indebtedness and to make additions to plant and equipment.  
As mentioned in the notes to the 1973 consolidated financial statements the Company in 1974 has commenced the amortization of the unallocated cost of shares in subsidiaries. This amounted to \$.3 million in the six-month period.

These interim consolidated financial statements have been approved by the Board of Directors:

G. B. CURRIE, Director

D. W. TIMMIS, Director

wages and fringe benefits and the adoption of a cost of living clause.

In June the British Columbia Government passed enabling legislation permitting it to change the levels of royalty payments on old timber tenures. While the level of the new royalties is still unknown, it is probable that they will result in appreciably higher logging expenses. The legislation also provides for modification of the level of logging tax paid by the forest industry in British Columbia.

Under the revised B.C. Forest Service guidelines, there has been an important escalation in logging road costs. Accordingly the Company has embarked on a study to determine whether or not its present method of accounting for and amortizing its logging road construction costs should be modified.

Pending completion of the study, a general provision has been made which, after related income taxes, has reduced consolidated net earnings by \$1.3 million in the first half of 1974.

On July 9, 1974 the Company completed a private placement in the United States of \$75 million (U.S.) principal amount of long term debentures. The debentures will mature in 1994 and will bear interest at a rate of 8 3/4 %. Also in July, the Company and INI (Instituto Nacional de Industria) completed arrangements for a minority participation by the Spanish organization in MacMillan Rothelsey Limited, a wholly-owned newsprint producing subsidiary located at Saint John, New Brunswick. Under the terms of the agreement INI acquires a 35% interest in the enterprise.

An additional item of interest is the agreement reached with Brascan Limited to undertake a joint venture involving a large pine and eucalyptus plantation in Brazil. The agreement calls for the two partners to plant an extensive forest that would ultimately be the basis for an integrated forest products complex. The area covered by the agreement has soil and climatic conditions that encourage rapid tree growth with eucalyptus reaching cutting size in from 6 to 7 years and somewhat longer than that for pines. Brazilian investors will participate in both the plantation project and the manufacturing phase to follow through another company to be formed by MB and Brascan.

Improved profitability over the past two years has enabled MacMillan Bloedel to achieve an average return on total capital employed of 7% for the five-year period ended June 30, 1974. While the recent trend has been more favourable, the longer term performance has not reached acceptable standards and it is essential, therefore, that the current level of 10.5% be at least maintained. Earnings prospects for the balance of the year appear to be reasonably good overall notwithstanding uncertain economic conditions in many of the Company's trading markets.

*David S. Currie* *John MacMillan*

Chairman

President

Vancouver, Canada  
August 2, 1974

## CONSOLIDATED STATEMENT OF EARNINGS (in millions of dollars)

THREE MONTHS ENDED  
JUNE 30  
1974 1973

SIX MONTHS ENDED  
JUNE 30  
1974 1973

Sales and other income:					
Sales of products and services	\$ 390.2	\$ 333.9	\$ 719.1	\$ 604.1	
Other income	.8	.6	1.8	1.8	
	<u>391.0</u>	<u>334.5</u>	<u>720.9</u>	<u>605.9</u>	
Costs and expenses:					
Cost of sales and services and selling, general and administrative	337.7	277.7	627.7	510.8	
Interest on borrowed money	5.1	3.8	9.2	7.6	
	<u>342.8</u>	<u>281.5</u>	<u>636.9</u>	<u>518.4</u>	
Earnings before income taxes and other undernoted items	48.2	53.0	84.0	87.5	
Earnings taxes:					
Current	21.4	20.5	38.0	36.2	
Future years	2.2	2.5	3.7	3.0	
	<u>23.6</u>	<u>23.0</u>	<u>41.7</u>	<u>39.2</u>	
Earnings before undernoted items	24.6	30.0	42.3	48.3	
Equity in earnings of partly-owned companies	5.7	1.6	8.4	3.3	
Minority interests in subsidiaries	(.2)	(.5)	(.5)	(.8)	
	<u>\$ 30.1</u>	<u>\$ 31.1</u>	<u>\$ 50.2</u>	<u>\$ 50.8</u>	
Net earnings					
Net earnings per share (dollars):					
Basic	\$ 1.42	\$ 1.49	\$ 2.37	\$ 2.43	
Fully diluted	\$ 1.38	\$ 1.48	\$ 2.31	\$ 2.41	
Unaudited					

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL (in millions of dollars)

THREE MONTHS ENDED  
JUNE 30  
1974 1973

SIX MONTHS ENDED  
JUNE 30  
1974 1973

SOURCE OF WORKING CAPITAL:					
Net earnings	\$ 30.1	\$ 31.1	\$ 50.2	\$ 50.8	
Components not affecting working capital (credits)					
Depreciation, depletion and amortization of logging roads	15.4	13.9	29.5	26.9	
Future years' income taxes — long term portion	2.2	2.5	3.7	3.0	
Equity in earnings of partly-owned companies	(5.7)	(1.6)	(8.4)	(3.3)	
Profit on disposal of long term assets	(.3)	.1	(.5)	(.5)	
Minority interests in subsidiaries	.2	.5	.5	.8	
Amortization of intangible assets	.4	—	.7	—	
	<u>42.3</u>	<u>46.5</u>	<u>75.7</u>	<u>77.7</u>	
Dividends received from partly-owned companies	8	.8	1.0	.8	
Value of shares issued for subsidiary acquired	.8	—	.8	—	
Proceeds of issue of long term debt	1.0	—	1.0	—	
Equity provided by minority interests (net)	.2	(.3)	(10.7)	(.8)	
Proceeds of disposals of long term assets	3.0	.9	3.4	2.4	
	<u>48.1</u>	<u>47.9</u>	<u>71.2</u>	<u>80.1</u>	

### APPLICATION OF WORKING CAPITAL:

Additions to property, plant and equipment	35.7	17.8	62.2	31.7	
Investments and other assets	2.8	1.4	22.9	1.9	
Reduction in long term debt	3.7	4.4	6.4	8.1	
Purchase of preference shares for cancellation	—	—	—	.6	
Dividends	7.9	6.2	15.9	10.4	
	<u>50.1</u>	<u>28.8</u>	<u>107.4</u>	<u>52.7</u>	
Increase (decrease) in working capital	(2.0)	19.1	(36.2)	27.4	
Working capital at beginning of period	147.3	170.3	181.5	162.0	
Working capital at end of period	<u>\$ 145.3</u>	<u>\$ 189.4</u>	<u>\$ 145.3</u>	<u>\$ 189.4</u>	

Unaudited

Note: Certain 1973 comparative figures have been restated in order to show separately the proceeds of disposition of long term assets and the profit or loss resulting from such disposition.



AR07



**MacMillan Bloedel Limited**

and Subsidiary Companies

**MAR 7 1975**

## **Interim Report to the Shareholders for the Year Ended December 31, 1974**

The buoyancy of world markets at the beginning of 1974 waned in some sectors by mid-year and the downturn continued and widened throughout the latter half of the year. The building materials operations of the Company were the most seriously affected in 1974 but, more recently, markets for all of MacMillan Bloedel's products and services have softened in varying degrees.

In the event, the financial results for 1974, although reasonably satisfactory, did not match the earlier promise of the year.

Sales and other income for the full year aggregated \$1,398,848,082 compared with \$1,219,241,715 for 1973.

Net earnings for 1974 amounted to \$72,298,532 (\$3.41 per share). The corresponding figures in 1973 were \$81,752,437 (\$3.90 per share).

Preparations were made in December for an issue in Canada of \$40,000,000 11¼% Series G Debentures. This issue was effected in January 1975 and the proceeds were applied in the reduction of short-term borrowings.

More detailed comments on the year's results will be given in the Annual Report of the Company which will include the audited financial statements for 1974, and which will be mailed to shareholders within the next few weeks together with notice of the Annual General Meeting.

Chairman

President

Vancouver, Canada  
February 24, 1975

wages and fringe benefits and the adoption of cost of living clause.

In June the British Columbia Government passed enabling legislation permitting it to change the level of royalty payments on old timber tenures. The level of the new royalties is still unknown, it is probable that they will result in appreciably logging expenses. The legislation also provides for modification of the level of logging tax paid for the forest industry in British Columbia.

Under the revised B.C. Forest Service guide there has been an important escalation in the road costs. Accordingly the Company has entered on a study to determine whether or not its present method of accounting for and amortizing its road construction costs should be modified. Pending completion of the study, a general reduction has been made which, after related income taxes, has reduced consolidated net earnings by \$1.1 million in the first half of 1974.

On July 9, 1974 the Company completed a placement in the United States of \$75 million of principal amount of long term debentures. The debentures will mature in 1994 and will bear interest at a rate of 8 3/4%. Also in July, the Company entered into arrangements for a minority participation by Spanish organization in Macmillan Rothsay a wholly-owned newsprint producing subsidiary located at Saint John, New Brunswick. Under the terms of the agreement INI acquires a 35% interest in the enterprise.

An additional item of interest is the agreement reached with Brascan Limited to undertake a venture involving a large pine and eucalyptus plantation in Brazil. The agreement calls for partners to plant an extensive forest that will ultimately be the basis for an integrated forest products complex. The area covered by the agreement has soil and climatic conditions that are rapid tree growth with eucalyptus reaching a size in from 6 to 7 years and somewhat longer than for pines. Brazilian investors will participate both the plantation project and the manufacturing phase to follow through another company to be formed by MB and Brascan.

Improved profitability over the past two years enabled Macmillan Bloedel to achieve an average return on total capital employed of 7% for the year period ended June 30, 1974. While the trend has been more favourable, the longer term performance has not reached acceptable standards and it is essential, therefore, that the current performance be at least maintained. Earnings per share for the balance of the year appear to be favourable, good overall notwithstanding uncertain economic conditions in many of the Company's trading

## YEAR ENDED DECEMBER 31

(in millions of dollars)

1974 1973

MAR 7 1975

## CONSOLIDATED STATEMENT OF EARNINGS

### Sales and other income:

Sales of products and services .....	\$1,396.3	\$1,215.2
Other income .....	2.5	4.0
	<u>1,398.8</u>	<u>1,219.2</u>

### Costs and expenses:

Cost of sales and services and selling, general and administrative .....	1,262.0	1,059.6
Interest on borrowed money .....	21.4	15.1
	<u>1,283.4</u>	<u>1,074.7</u>

### Earnings before income taxes and other

undernoted items .....	115.4	144.5
------------------------	-------	-------

### Income taxes:

Current .....	43.2	60.3
Future years .....	17.3	6.3
	<u>60.5</u>	<u>66.6</u>

### Earnings before undernoted items

Equity in earnings of partly-owned companies .....	54.9	77.9
Minority interests in subsidiaries .....	19.1	6.2
	<u>(1.7)</u>	<u>(2.3)</u>

Net earnings .....	<u>\$ 72.3</u>	<u>\$ 81.8</u>
--------------------	----------------	----------------

### Net earnings per share (dollars):

Basic .....	\$ 3.41	\$ 3.90
Fully diluted .....	\$ 3.29	\$ 3.85

Subject to audit

This interim consolidated statement has been approved by the Board of Directors:

G. B. CURRIE, Director

D. W. TIMMIS, Director

Chairman

President

Vancouver, Canada  
August 2, 1974

Note: Certain 1973 comparative figures have been restated in order to show separately the proceeds of disposition of long term assets and the profit or loss resulting from such disposition.

Unaudited





